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# Lloyds Bank Review

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JULY 1946

# Lloyds Bank Limited

**Head Office: 71 LOMBARD STREET, LONDON, E.C.3**

1677

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**ALWYN PARKER, C.B., C.M.G.**

# A Message from the Chairman

IT is my privilege to send a greeting to our friends throughout the world on the reappearance, after the war interval, of LLOYDS BANK REVIEW.

The aim of our REVIEW is to make such contribution as lies in our power to the great national objects of policy; at home, a high and stable level of employment; abroad, friendship and collaboration with other nations, and in particular with the United States of America and Soviet Russia.

Who can doubt that these policies are not only themselves mutually interdependent but that they are also indispensable to the attainment of that prerequisite to peace, a rising standard of living throughout the globe? A world of famine has to be transformed into a world of plenty, and then the vast productive power of the earth must be harnessed, as never before, to the service of mankind.

The British Commonwealth and Empire has a part to play, we believe, second to none in the new world which is being so painfully brought to birth before our eyes. With the development of world and Empire air communications London's banking system will have new services to render to the world.

In the years ahead our REVIEW will have the progress of great events to observe and to record, and answers to many problems to seek and to discuss; may I commend to our readers the statement by our Editor of the policy which will inform our contribution to the common effort?

BALFOUR OF BURLEIGH.

# TABLE OF CONTENTS

# Lloyds Bank Review

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## Editor's Foreword

TOWARDS the end of his *History of Europe,* which begins with neolithic man and concludes with Stalin and Hitler, H. A. L. Fisher tells us that:

> The lesson of European history is that Europe is never settled, but always restless and uneasy.

Of few periods can this be more true than of the seven years since this REVIEW last appeared, years of overwhelming change and full of far-reaching consequences for human life. A long train of events has unset every joint of the political fabric in many parts of the globe and effected a new distribution of the force of nations. And when we turn from the shambles of the battlefield, as from the chaos produced in the economic field, to scrutiny of the future and look out on the world, how uncomfortable a spectacle it discloses. Conflicting ambitions and inveterate feuds keep the world in a perpetual fret and fever of uneasiness.

Of one thing we may be assured. We shall never find our way through the terrible imbroglio that the War has created unless we realize the need, the imperious need at home and abroad, of co-operation and goodwill. This is what principally matters in the context of events. To prefer strife to conciliation is nothing less than the abdication of morality itself, for we are all creatures of a common history. It may be said at once that the first aim of this REVIEW, in an outlook which will seek to be world-wide, will be to suggest points of accommodation, mutual help, and constructive compromise, nor will it fail to stress those points as to which a consensus of opinion has already been voiced. Thus in the White Paper on *Employment Policy* (Cmd. 6527) presented to Parliament in May, 1944, the members of the late Coalition Government were at one in their belief that:

> Without a rising standard of industrial efficiency we cannot achieve a high level of employment combined with a rising standard of living.

Yet we live in conditions where people find it just as easy to quarrel as to agree, for as John Selden wrote three centuries ago:

> In troubled waters you can scarce see your face, or see it very little, till the water be quiet and stand still. So in troubled times you can see little truth. When times are quiet and settled, then truth appears.

It is a commonplace of historical observation that there is nothing so efficacious as a great war in breaking down the hard crust of custom, for the wheels of history run rapidly then and processes which might otherwise be slow and gradual become swift and vehement. We may rejoice at this or we may dread it. But whether we like it or detest it, few would deny that our present situation offers a series of social and economic questions of the highest practical importance and the most invigorating theoretical interest. Only posterity will be able to see them as a whole, but at least we know that they are questions requiring the resolution of obscure and complex objects into their component aspects. This implies, of course, a great deal of investigation, at once sanguine and sceptical, with a readiness to listen to the argument on the other side. Those who entrench themselves behind unexamined shibboleths and repel the scrutiny of accepted prejudice are not the best guides; truly, they are "damn'd, like an ill-roasted egg, all on one side."

Social and economic problems fill so large a sphere in the political prospect, obtrude themselves so continuously into the arena of debate, and excite such violent emotions when they do that the upshot is sometimes an accentuation of our everlasting human proneness to mix up different questions and to answer one point by arguments that belong to another.(1) As Leslie Stephen reminds us, undoubtedly it is a very difficult task to be alternately witness and judge; to feel strongly, and yet to analyze coolly.

Even in a REVIEW of this character, this hope may be expressed without impropriety: if the world must become steadily more monotonously drab in its outer garment of economic circumstance, if men and women must to a large extent be ground into monotony by the friction of the social mill, let us preserve some guarantee for diversity of life and intellectual

(1) *cf.* Fisher, Right Hon. H. A. L.: *The Common Weal.* (Oxford, 1924), p. 63.

adventure, or else we shall suffer a moral and material impoverishment in the process.

In any case the editor of such a REVIEW must tread warily, not seeking to play the missionary among people better informed than himself on party politics, yet convinced that if a social or economic cause be right, just, and reasonable, then it should be commended not to a party but to mankind. Provided this delicate task be performed by his contributors with frankness and simplicity, and by an apt and cogent recital of the facts, provided the style be terse, luminous, and pregnant with meaning, they may, perhaps, open up new vistas and uncover new facets. It will, no doubt, be necessary for them on occasion to enter into minute detail, but the reader will put up with this if taken quickly across the dreary patches, especially if the narrative flows briskly, omitting all heedless writing, all needless technical diction, all intentional ambiguities. The reader should never have to rub his eyes and wonder whither we are going.

We must have uppermost in our minds that, small as is the wisdom with which the human race accommodates itself to the governing conditions of life, economic truths wherever they may lie have a way of enforcing themselves and may be trusted to prevail ; as we have somewhere read, they may, like nature, be expelled with a fork but they always return. Thus, to take a topical case : projects of nationalization will be judged in the final analysis hereafter very largely by the touchstone of whether or not, in each particular case, the transfer to State management has led to an improved level of life for the whole community and to an increased dividend for the nation. I advisedly say very largely, for we cannot weigh everything in material scales.

No fine gift of discernment is necessary to perceive that, apart from the pains of original thought, there is nothing more valuable than the cross-fertilization of ideas and collective thinking. Our contributors accordingly will be chosen from a wide circle so that we may offer a transcript, not of mere fact, but of fact in its infinite variety, as modified by human preference. What is important is to seek to discover, with a full sense of counter-balancing considerations, the plan and groundwork of a convinced and effective life.

Here then, in a generalized outline, are the broad principles we shall endeavour to follow in these pages. From time

to time we shall include articles bearing on outstanding developments in Canada, Australia, New Zealand, South Africa, and India, where Lloyds Bank has branches or many old and valued connections. We shall enlist well-known writers from the United States and the Continent of Europe. And we shall certainly not overlook the Far East as a vast and promising area of progress and mutual commercial advantage. And, finally, since to quote Professor G. N. Clark:

> To be well governed, a world, like a horse or a man, must be known and understood,

we shall devote a quarter of our available space to diagrams and statistical data, thus seeking gradually to bring together, in a clear and rapid conspectus, a mass of material not otherwise readily accessible to the general reader.

Death has been a familiar figure in every home in our land during the past seven years. And it is sad to think that, when the paramount need of the hour is to see, and make others see, the world through plain glass, the War should have robbed this REVIEW of two of our most brilliant contributors, Lord Keynes and H. A. L. Fisher.

Lord Keynes was a versatile path-finder if ever there was one, and his mind ranged from music to economics and from science to philosophy. It was an active, challenging, searching mind, contemptuous of complacency and convention, but with a constant concern with large problems of social and intellectual interest. His thesis was not always easy to comprehend in some of his technical treatises, but that he could be a master of the art of prose composition, strong, limpid, and vital, all readers of his *Essays in Persuasion* will attest. But the last claim he would have advanced is that his own course had been static or his conduct consistent. Indeed, he had the art of accommodating himself to every new scene and his alignments on issues and policies were many and very mutable. Thus, although the last years of his life were devoted to the exposition and promotion of an enlightened internationalism, so much so

indeed that he may be said to have given his life for this cause, there was a phase in his career when he coquetted with another point of view. His advice could change overnight; this would be somewhat disconcerting to those charged with implementing policy. But there are few who do not now fully recognize that his remarkable qualities were, on the whole, employed to the great and lasting advantage of his country and the world. His wonderful tact for circumstance, his weighty learning, dominating by its mass, his close argumentation, deeply impressed his contemporaries.

If, for a brief spell, that great humanist, H. A. L. Fisher, could revisit us at this critical pass, we should almost see the play of his features and hear the inflexion of his voice as he warned us that no law or policy can in the long run prevent men from buying in the cheapest and selling in the dearest market; warned us that money is not the true foundation of wealth, nor international trade a money warfare, but rather an exchange of goods and services from which both parties profit; warned us that a great and continuous flow of international trade is the strongest of many ways in which the nations of the world may be helped against the ruinous folly of war, for such unfettered trade throws into a forced and fruitful communion minds of the most different temper, giving them an elasticity and many-sidedness which might otherwise be wanting; warned us, above all, that the main hope and promise for humanity lie in the preservation and improvement of that high standard of life and achievement which was only reached after long centuries of evolution by the more gifted peoples of Europe.

Each of the sentences cited in the preceding paragraph is garnered from one or other of the Warden's published books. *His* prose never failed of the mark; his was the gospel of intellectual courage and truth, of the duty of everyone to contribute as best he may an independent judgement to the common stock. Nor can I do better than close this Foreword on a note of confident hope, by recalling a passage he quoted during our last walk, in full prospect of the Saxon Weald he had described with a subtle attraction in *The Beauty of England*. It was the Spring of 1940, when he had been dwelling sadly on the calamities of the present age and the deplorable failure to

achieve a lasting peace. The passage is from *The Storm at Sea* by Alcaeus, in C. M. Bowra's translation : ([1])

Patch up with haste the gaping side
And into a safe harbour ride !

Let no soft fear lay hold of anyone ;
Before us lies a great task to be done.
Remembering the past and how
We suffered, prove our manhood now !

ALWYN PARKER.

([1]) *The Storm at Sea* will be found on page 199 of *The Oxford Book of Greek Verse in Translation*. (1938).

# 1946 and 1919

*By Professor A. C. Pigou*

I

LOOKED at in the broadest and most general way, the impact upon the economic life of this country of the second German war was strikingly similar to that of the first. For wars of such a scale and character this was to be expected. It was inevitable that the man power of the country engaged in military and civilian activities together should expand substantially; that a large transfer of resources out of occupations, such as building, devoted mainly to civilian uses, should be made to the Forces and munition making; that the volume of resources engaged in adding to and maintaining domestic civilian capital should be greatly curtailed; that a country, which, like Great Britain, is able to draw munitions of war from abroad by selling assets or creating debt there, will make use of these means of augmenting its war strength; and so on. It was inevitable too that many persons in the prime of life should be killed and many injured; and also that substantial material damage should be suffered from enemy action. These are essential characteristics of any modern large-scale war. But in detail and in quantity they will naturally differ on different occasions; just as the monetary and fiscal devices through which warring governments obtain control over the real resources that they need will differ. Before we consider the way in which the post-war problems of 1946 are related to those of 1919 it will be appropriate to say a little about the direct impact of the two wars, as regards, first, the mobilization of British man power—man in Mr. Churchill's phrase 'embraces' woman—during their course, and, secondly, the magnitude of the direct loss which we suffered through them.

## II

### The Mobilization of Man Power

It is often suggested that the extent to which the man power of this country was mobilized in direct and indirect support of the war effort was substantially larger in the second than in the first world war. Writing hurriedly, I have not been able to go into the statistics of this matter as carefully as I

should have wished. My broad impression, however, is that this suggestion is somewhat misleading. At the end of the first war there appear to have been some four and a quarter million [1] more men in the armed Forces than there were at the beginning, while industry (including distribution) taken as a whole, when the new entrants, chiefly, of course, women, are set against the withdrawals, seems to have been employing some three quarters of a million fewer persons. At the end of the second war the armed Forces and civil defence showed an expansion of some four and a half million, and industry a contraction of somewhere about one quarter of a million. Thus for the first war the net expansion in the number of persons at work in the Forces and in industry together seems to have been in the neighbourhood of three and a half millions, for the second in the neighbourhood of four and a quarter millions. This—shaky as the figures are—bears out the common view. It must be borne in mind, however, as will appear presently, that the loss of human life in the first war exceeded by nearly 400,000—on the assumption that the numbers of merchant seamen and fishermen lost at sea were similar in both—the corresponding loss in the second, while, presumably, the number of men completely incapacitated was also much larger. To strike the balance fairly, we ought to add these men to our estimated three and a half million in respect of the first war. Moreover, at the beginning of the second war there was a very much larger mass of unemployed persons available to be drawn upon than at the beginning of the first; the official figure for mid-1939 is 1·3 millions. No doubt, it is proper to count the people who moved into the Forces and industry from unemployment as mobilized for the war effort on an equal footing with the rest. But the existence of this large cushion of unemployment undoubtedly meant that British man power was less fully mobilized for action in August, 1939, than it had been in July 1914; so that a part of the apparent excess of war-time mobilization in the second war was in a sense adventitious. On the whole, this generation cannot, I think, rightly claim to have "done better" in this matter than its predecessor. Both did magnificently. In a very rough way we may reckon that in both wars additional man power came into action to the extent of some 20 per cent.

(1) This estimate is based on the demobilization statistics.

## III

### Direct Losses Due to War

The direct damage that the recent war inflicted on this country may conveniently be separated into two parts, damage to human life and damage to capital assets. Two hundred and sixty thousand men in the armed Forces were killed and two hundred and seventy thousand wounded. Thirty thousand men of the merchant navy and fishing fleet were lost at sea and sixty thousand civilians died as the result of air bombardment. Grave as this loss was, it was very much less than that suffered between 1914 and 1918, when seven hundred thousand men in the British armed Forces were killed and one million six hundred and sixty thousand wounded. Thus, as regards human life, we escaped much more lightly this time than last. As regards capital assets, however, of which the most important individual items are, of course, ships and buildings, the balance tips strongly the other way.

Aggregate British shipping losses, after allowing for replacements, which were large last time, were probably a little larger this time. In the collection of statistical material prepared for the Washington Conference it is stated: "The United Kingdom entered the war with a Merchant Fleet of some twenty-two million deadweight tons. In the course of the war more than half this tonnage has been lost as the result of enemy action. Part of the loss has been made good by new building and acquisitions; but, excluding three and a half million tons of Dominion and foreign-owned vessels now operating under Charter, the United Kingdom Merchant Fleet, at 30th June, 1945, amounted to less than three quarters of the pre-war fleet"(1); it was smaller by some six million deadweight tons. At the beginning of the 1914–18 war the ships (of over one hundred tons) sailing under the British flag amounted to about twenty-one million gross tons, or, roughly, thirty-one million deadweight tons. For that war the difference between the new construction of merchant vessels of the British Empire and losses by direct war causes was three million two hundred thousand gross tons(2)—a little under five million deadweight tons. Total British tonnage available was less by some 18 per cent. at the end of that war than at the beginning; the tonnage of vessels of ocean-going size being about 25 per cent. less.(3)

(1) Cmd. 6707, p. 8.
(2) Salter, Allied Shipping Control, p. 363.
(3) Fayle, The War and the Shipping Industry, p. 323.

Much more striking is the difference between the impacts of the two wars upon buildings. The background, as set out in a paper on Housing presented to Parliament in March, 1945, is as follows: "In the years 1934–39 the total output of houses exceeded three hundred thousand a year. . . . By 1939, the proportion of people still living in unfit or overcrowded houses had been reduced to some 6 per cent.; and over 30 per cent. of the population were living in *new* houses, which had been built since 1919. This progress was cut short by the war. The number of houses built between 1939 and 1945 has not exceeded two hundred thousand."(1) Not only, however, was the building of new houses enormously contracted—this had happened also in the earlier war—but also the damage to existing houses by direct enemy action, which then had been insignificant, was this time enormous. "Houses destroyed or damaged by enemy action in the United Kingdom totalled four million. Of these, two hundred and ten thousand were totally destroyed and two hundred and fifty thousand were so badly damaged as to be rendered uninhabitable. . . . Much of the property destroyed has consisted of industrial plants, which were naturally one of the enemy's main objectives."(2)

A third dominant item of a more general kind is constituted by our assets abroad. While British holdings of foreign securities seem to have been reduced to roughly the same extent in monetary terms, about a thousand million pounds, in each of the two wars, our accumulation of foreign debt in the second was immensely greater than in the first. Then, what we had lent to Europe was, nominally at least, about equivalent to what we had borrowed from America; this time, the net increase in our overseas indebtedness has been not far short of three thousand million pounds.(3)

Our *aggregate loss* of assets in monetary terms between 1939 and the middle of 1945 is summarized in the White Paper just cited as follows:

| | £ millions. |
|---|---|
| Physical destruction—on land .. .. .. | 1·500 |
| „ shipping (including cargoes) .. | ·700 |
| Internal disinvestment .. .. .. .. | ·900 |
| External disinvestment .. .. .. .. | 4·200 |

(1) Cmd. 6609, p. 1.
(2) Cmd. 6707, p. 13.
(3) Ibid., p. 10.

This omits "any estimate of private (i.e., non-industrial) disinvestment—deterioration of dwellings, reduction of household inventories, etc.—for which no estimate can be given. On the other hand, it also fails to allow correction for any possible post-war value of war-time capital work undertaken by the Government. But, in any case, a figure of £7,300 million would appear to be of the right order. Pre-war United Kingdom national wealth has been very roughly estimated as of the order of £30,000 million (at present prices), so that the loss of national wealth over the war period is about 25 per cent." (1) This figure undoubtedly represents a very much larger loss of real capital assets than Great Britain suffered in the first World War.

## IV

## Pegs and Holes

The periods immediately following the two World Wars both opened with an enormous number of men and women engaged in occupations in which they would henceforward be no longer wanted. Some of these persons, notably many married women and some men who had continued at work for patriotic reasons beyond normal retirement age, naturally took the opportunity of withdrawing from "gainful occupation." But, of the great mass who wished to continue "gainfully occupied," a very large number had perforce to change their employment. This is true of all the men demobilized from the armed Forces and of a substantial proportion of those who had been employed directly or indirectly in the manufacture of armaments. No doubt, many of those engaged, for example, on engineering work for the war, might expect to continue with the same firms when these were turned over to civilian work. Moreover, of the men demobilized from the Forces many in the older age groups would have a good expectation of going back to their pre-war jobs. In the aggregate, however, the number of pegs to be fitted into new holes was bound to be very large. In this respect the two wars were alike; the problem after the second being perhaps rather more severe because, on account of its longer duration, more men must have been absorbed into the Forces before the age at which they could establish themselves in civilian jobs.

(1) Cmd. 6707, p. 14.

The difficulties associated with this adjustment of pegs to holes was bound on both occasions to be serious; and that for four reasons. First, the number of persons that will be wanted for various sorts of work—the appropriate distribution of workers among occupations—at the end of a great and long war cannot be known in advance. After a very short war it might be reasonable to suppose that the pre-war distribution would still be approximately right. But after wars such as these two the whole pattern of economic life must inevitably be distorted; large changes are certain to have taken place in the comparative quantities of different services and goods to which purchasing power is directed. Some of these changes can, of course, be foreseen in a rough way. That workers in the building industry, for example, will be in much greater demand for some time to come than they were in 1939 is evident. But the picture as a whole in its quantitative aspects can only become manifest by degrees.

Secondly, as happened after the first war and is bound to happen again, the comparative quantities of work wanted in different places—because some of these places are predominantly devoted to particular industries—are liable to be altered; and the problem of adjustment to jobs is complicated by the further problem of adjustment to homes.

Thirdly, at the conclusion of a great war there is not a *single* pattern of industry laid up in heaven, to which these adjustments have to be made. For the first year or two an abnormally large amount of work is needed in making good damage done to equipment, including, of course, ships and houses, by direct enemy action, in renovating equipment which has become worn out and could not in war-time be replaced, in modernizing factory plants, and, in general, in catching up with capital arrears. After a few years most of what is required in these respects will presumably have been done. That was so after the 1914 war, and, though this time, in the special case of building, what may perhaps be called the transitional period will certainly be much longer, even there it must eventually come to an end. Thus, to put the matter broadly, the appropriate adjustment of pegs to holes for the first few years after a great war is substantially different from what it will be when things have more or less settled down. There must be two different adjustments, one following the other, not a single adjustment to a single stable pattern.

But even this is not all. Even though the total numbers required in each several occupation and place were at once fixed and perfectly foreseen, a fourth and very serious difficulty would remain. If some overruling authority could direct individuals to particular jobs in peace time, as the British Government did over a wide field during the second war, everything would be easy. But for Great Britain, even if that were desirable, it is certainly not politically feasible. Individuals must be left to choose for themselves. In normal times the pressure exercised through wage rates and employment no doubt gradually moulds their choice as the " invisible hand " requires. But, where large movements are involved, this process is bound to be slow and inefficient, particularly when social insurance weakens the expulsive force of unemployment as against occupations of contracting demand. " Granted that fewer people are wanted in my occupation than are established there now, why should *I* be the one to move? After all, before long things may improve. I shall stick to the job I am accustomed to and to my home among my friends."

In consequence of all this, there is a very serious risk that large pockets of unemployment may develop, as they did develop between the wars; large numbers, especially of elderly persons, stranded in half derelict industries and towns because their jobs have run away from them and they have not been able either to catch up with them or to adapt themselves to others. This is a grave problem. To deal with it satisfactorily will test statesmanship to the utmost. At least, however, about this, if about nothing else, we have been abundantly warned.

## V

### The Special Case of Ship-building

When the first World War ended British tonnage available was, as we have seen, some 18 per cent. less than it had been in 1914, while in vessels of ocean-going size it was as much as 25 per cent. less. Owing to the enormous American shipbuilding programme, world tonnage had not decreased in that ratio; indeed in June, 1919, it was some 5 per cent. larger than in June, 1914. Much of the new American shipping was not, however, well suited to the needs of peace. Partly for that reason, partly because of the abnormal proportion of shipping still in the hands of repairers and partly because of the growing

demand for ships for civilian use, in the spring of 1919 an acute shortage became manifest and freights in the free market rose to a great height. These high freights, the prospect of release from control, the general expectation of a world-wide boom in trade, the reduction in Excess Profits duty from 80 per cent. to 40 per cent., the natural desire to restore this country's share of world shipping, which had dropped from 41·6 per cent. in June, 1914, to 34·1 per cent. in June, 1919, to the pre-war level, all acted together to stimulate British ship-building. In spite of very high costs, at the end of 1919 nearly three million gross tons of merchant ships were under construction in British yards, almost a million more than in December, 1913; and the tonnage of merchant vessels (of over one hundred tons gross) launched in the United Kingdom in 1918, 1919 and 1920 (in thousands of gross tons) were, according to Lloyd's Register, respectively 1,348, 1,620 and 2,040. Moreover, not in this country only, but all over the world, ship-building boomed; in such measure that by June, 1920, world tonnage exceeded what it had been in 1914 by over 14 per cent.

Now ships are durable goods, and durable goods, once made, endure! This not surprising fact entails that, if an abnormally large number of ships are built in one year or sequence of years, the total stock of ships in existence in the next period is *pro tanto* larger; and, consequently, even if there is no falling off in the total quantity of ships required then, the quantity of *new* ships so required must, in general, be much contracted. Thus a large expansion in ship-building in one period tends automatically to generate a large contraction in the next period; and when, as happened in the aftermath of the 1914-18 war, the second period coincides with a general recession in industry and trade, the contraction may well be catastrophic. In 1922 one sixth of the world's shipping was laid up in the ports.(1) In the United Kingdom, average quarterly launchings, which had been 510,000 tons in 1920, fell to 263,000 tons in 1922 and 162,000 in 1923—i.e. to one third of their peak level; with an associated enormous volume of long continued unemployment among persons concerned with ship-building. At the conclusion of the second war the general shipping position was not essentially different from what it was

(1) G. C. Allen: *British Industries*, p. 153.

at the conclusion of the first. Already by March, 1946, the total tonnage of vessels under construction in the United Kingdom was nearly 1,600,000 gross tons, as against 1,100,000 tons in the corresponding month of the preceding year and less than 800,000 tons at the end of 1938.(1) Ship buyers and ship builders, beware!

## VI

### Prices and Wages

At the end of the first World War bank deposits had grown from 1,030 millions to 1,990 millions—a little less than doubled—and estimated currency circulating in the hands of the public from 128 millions to 393 millions *at the end of* 1919,(2) and, therefore, presumably substantially less than this—i.e., substantially less than treble its pre-war amount—at the end of 1918. Between 1938 and 1945 the average monthly deposits of the clearing banks had grown from 2,270 millions to 4,690 millions—a little more than doubled—and estimated currency circulation with the public from 446 to 1,262 millions—a little less than trebled.(3) One might have expected in these circumstances that the various indices of commodity prices and money wage rates would have risen rather more during the second World War than during the first. In fact they moved, all of them less, some of them much less. The explanation of this is to be found chiefly in government policy. By very heavy taxation, forced loans (i.e., taxes repayable later under the system of tax reserve certificates), and elaborate propaganda to induce people to buy war loan securities in preference to goods, direct pressure was exerted to prevent money coming on to the market; while by stringent and wide-reaching price controls, rationing and priority devices, indirect pressure was exerted in the same sense. Moreover, the cost of living was held down by the payment of very heavy subsidies—at the end of the war these amounted to some 300 millions a year—in respect of goods entering into the cost of living index. By this means it was hoped, and the hope was in large measure justified, that the tendency, inevitable in

(1) Monthly Digest of Statistics, April, 1946, p. 87.
(2) Cf. Kirkaldy: *British Finance*, 1914–21, p. 86, quoting from a speech by Reginald McKenna, Chairman of the London Joint City and Midland Bank.
(3) Monthly Digest of Statistics, April, 1946, pp. 96 & 99.

war-time, towards large increases in money wage rates would be held in check—since one of the main grounds for such increases, namely a rise in the cost of living, was removed. The salient facts are as follows. Whereas in the first war the Statist index number of wholesale prices rose by 130 per cent., in the second the rise was only 80 per cent.; the cost of living index number was up by 120 per cent. in the first period as against 32 per cent. in the second; money wage rates by 80 per cent. in the first as against 50 per cent. in the second. Thus this country reached the end of the second war with a price and wage structure substantially less strained and extended than at the end of the first.

This, however, is not the end of the story. For, with the earlier catastrophe, it was in the immediate aftermath, not in the course of it, that prices and money wage rates underwent the most violent disturbance. By the spring of 1920 the Statist index number of wholesale prices stood 37 per cent. above what it was at the Armistice, while, though the cost of living index had not yet risen by as much as 10 per cent, the index of money wage rates was up by some 30 per cent. This was the great post-war monetary boom, the prelude to the still greater post-war slump. Will history repeat itself? So far there is little sign of its doing so. From July, 1945 to April, 1946, the Statist's index of wholesale prices had not appreciably changed, the cost of living index had fallen slightly, while the index of money wage rates had, indeed, risen, but only by some 6 per cent. (1). It would seem that the lesson of the early 1920's had been learned. Whereas then it was the avowed object of the government to end all industrial controls, priority arrangements, price maxima and rationing of consumers' purchases at the earliest possible moment, while the marketing of new securities, whose proceeds were to be applied inside the United Kingdom, was permitted without restriction as early as March, 1919, now great caution and wariness are being shown. The government is resolved, if it can, to hold back purchasing power from flooding into the market until there is a sufficient flow of goods there to meet it and prevent prices from soaring upwards. It is greatly to be hoped that it will succeed. We are bound, however, to bear in mind that there is an enormous mass of money and of government scrip

(1) Monthly Digest of Statistics, April, 1946, pp. 102–3.

readily convertible into money in the hands of people, who, now that the war is over, are keenly anxious to use a part of their war-time savings for refitting their homes and for present enjoyment. Unless, as individuals, they are prepared to exercise restraint for some while longer, it will be very difficult for the government to implement its avowed policy. If the controls break down in America and prices soar there, or if the upward pressure on money wage rates is much intensified here, its best efforts to fend off an inflationary boom may be defeated.

The boom of 1919–20 was followed by a devastating monetary slump. Thus the Statist index number, which, as we have seen, was 37 per cent. above the armistice level in the spring of 1920, had fallen by the end of 1921 to 31 per cent. *below* that level. The damage done was accentuated by the fact that, until the first months of 1921, money wage rates, under the impact of the preceding boom, continued to move upwards. Thus between April, 1920 and January, 1921, they had actually risen 17 per cent. in the face of a price fall of 25 per cent. It was inevitable in these conditions that employment and aggregate real income should be very seriously contracted. Of course, there were important "real" causes behind the slump, causes which must have operated in some degree no matter how the money situation had been handled. The renovation of depreciated capital equipment and the restoration to normal level of the stocks held in warehouses and shops was nearing completion, and to that fact our economy had somehow to adjust itself. But, had the preceding monetary boom not taken place, or, if that could not be prevented, had the monetary authorities applied the brake less sharply or held it down for a shorter period, the slump might well have been less severe. At that time, working, as they were, in accord with the then generally accepted policy of restoring the £ sterling to pre-war gold parity as rapidly as possible, they had little freedom of manoeuvre. Now they are not subject to that restraint. Moreover, the government's armoury of remedies and palliatives against a threatened slump is far better stocked now than it was then. There is reasonable hope that the shocks, the losses and the heavy unemployment that characterized the early 1920's will manifest themselves, if at all, in a much less violent form.

## VII

### Exports and Imports

During the course of both wars the volume of British commercial exports greatly contracted. This was inevitable in view of the urgent need of mobilizing our resources for combat. It has sometimes been suggested that in the second war the Lend-Lease arrangement with the United States enabled us to reduce our exports in a special degree, because it made unnecessary current payment for munitions and food. It must be remembered, however, that in the first war, so soon as the United States became a belligerent, unlimited credit there was at our disposal. The difference made by Lend-Lease was thus rather that it obviated the difficulties of the post-war settlement than that it helped us currently to obtain war goods without the need of sending out exports with which to buy them. The proportionate contraction in our exports was probably a little greater in the second war than in the first; but not much. Thus in 1944 the *volume* of British exports—i.e. their value adjusted roughly for price changes—was officially estimated at 30 per cent. and in 1945 (January to September) at 42 per cent.—this increase being partly accounted for by exports for relief purposes—of the 1938 volume. (1) For 1918 no comparable figure is available, but for the year 1919 the Balfour Committee reckoned the volume of our exports in the above sense to have been 55 per cent. of what they were in 1913. Since 1919 was a full peace year, exports then must have been substantially larger than in the year before. It seems reasonable to conclude, therefore, that the proportions in which our exports contracted during the course of the two wars were not markedly different.

The *problem* presented by the export situation after World War II *is*, however, different from the corresponding problem after World War I. On both occasions, of course, it was to be expected that we should be left with our foreign markets dislocated and some former overseas customers prepared to do without, or to make for themselves, goods that they had previously bought from us. These difficulties in the way of export recovery were common to both occasions; and, indeed, after the earlier war the volume of our exports had only reached four fifths of the pre-war figure in 1924 and, even

(1) Cmd. 6707, p. 8.

in the boom year of 1929, was well below that figure. But there is this fundamental difference. After World War I the ill consequences of the shortage of demand for our exports were chiefly the unemployment generated among people attached to the exporting industries and the further secondary unemployment in other industries indirectly due to that; ill consequences that might have been warded off, had means been found to transfer people more readily from making exports to other work. There was no consequential difficulty in obtaining the *imports* of food and materials required here. The reason for this was twofold. On the one hand, up to 1914 we had been accustomed, out of the proceeds of our trade and the foreign interest accruing to us, to invest every year large sums abroad. The statistical data are defective, but it has been estimated (by Mr. Colin Clark) that the foreign investments made by Englishmen in 1907 amounted to 138 million pounds. Here there was a substantial cushion. By simply ceasing to make new investments abroad we could correspondingly add to our imports. But this was by no means all. At the end of the first war the terms of trade had moved strongly in our favour. As I have written elsewhere: " A representative unit of British exports unchanged from 1913 was able to purchase 20 per cent. more imports in 1924. A main reason for this marked shift in our favour was, no doubt, the fact that our imports consist chiefly of raw materials and food; for, as against pre-war times, these commodities throughout the world (apart from special taxation) fell greatly in value relatively to manufactured goods, of which we are large exporters. The expansion of agricultural production in the new world under the stimulus of the war, the resistance there to subsequent contraction and the determination of many European countries to re-establish, or even expand, the pre-war level of their agriculture were responsible for that."(1) As a consequence of these things, in spite of the contraction in the volume of our exports, the reduction in real terms of our receipts from shipping services and (as a result of the diminution in our holding of foreign securities) from interest accruing to us abroad, the volume of our net imports stood up extremely well. Except for the unhappy year 1921 it never fell as much as 15 per cent.

(1) The Economic Position of Great Britain (1936), London and Cambridge Economic Service, Special Bulletin No. 43, p. 27.

below the 1913 level, and from 1924 onwards was substantially above that level. Now the situation is quite different. The export problem is a grave one, not mainly for the sake of the export industries, but because, unless it can be satisfactorily treated, we may find ourselves in great difficulties about essential imports. The vital fact that exports matter because they bring in imports, not because they are a national good in themselves, a fact which economists have long vainly tried to implant in the minds of 'practical men,' now stands out starkly and cannot be ignored. Upon this novelty of 1946, as against 1919, there is call for a brief comment.

It has become a commonplace of political discussion that, in order to secure henceforward the imports of food and raw materials required to maintain our standard of living, the volume of our commercial exports will need to be increased by some 75 per cent. above the 1938 level; which obviously implies a very much larger increase in the money value of these exports. This figure of 75 per cent. is, of course, subject to wide error; in particular a substantial shift in the terms of trade, such as occurred after the first war, might greatly modify it. But it is as good a guess as can be ventured now. Plainly an increase on such a scale will be very difficult to attain. If international co-operation breaks down and country after country shuts itself up in quota- and tariff-ridden efforts at self-sufficiency, it *cannot* be attained. In that event a heavy reduction in imports will be forced upon us. In order that our limited purchasing power shall be concentrated on vital food and materials, non-essentials will have to be kept out; and war-time concentration on agriculture (particularly cereals) will have to be continued. In every important sense the country as a whole will be rendered much worse off than it would otherwise have been; and, though, by means of food subsidies and so on, the bulk of the burden may be held off the shoulders of the lowest income groups and passed to those better able to bear it, the general outlook will be greatly clouded. On the other hand, if political tension is abated, if hindrances to international intercourse and trade are not increased but lessened, and if the world as a whole moves forward to a period of prosperity, we should, it may fairly be hoped, reach or approach our target within the period of breathing space which the American loan—if it is sanctioned—will afford us. Whether the required conditions will be

satisfied, so that this will in fact happen, is beyond the range of prophecy.

## VIII

### Conclusion

History never treads precisely the same path twice, and the general configuration of the world economy is greatly different in 1946 from what it was in 1919. But the record of what happened a quarter of a century ago is not without relevance to present problems. There are there in plenty signposts and danger signals. To interpret these aright and to use in the service of this generation such guidance as can be drawn from them is, especially for ministers labouring under heavy burdens, a hard task. But it is also a great opportunity.

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# Inflation and its Aftermath

*By W. Manning Dacey*

ANY appraisal of war finance largely resolves itself into an estimate of the degree of inflation which has been involved. On the present occasion, such an enquiry is greatly assisted by the invaluable White Papers on National Income, which permit a far closer insight than ever before into the actual workings of our economy and the technique of Governmental finance with its resultant effects on such factors as incomes, savings and consumption. One of the main purposes of this article is indeed to examine the detailed evidence contained in these White Papers about the failures and successes of the methods of finance adopted, and about some of the problems which war finance has inevitably left in its wake.

Before this is possible, however, it is necessary to agree upon some working definition of inflation and its modus operandi. As a measurement of inflation current discussion tends to alternate between two indices. One is the expansion in the means of payment (cash and bank deposits); the other is the rise in prices (as measured by the cost of living, wage rates or some other price level). Neither criterion, we would suggest, is particularly relevant under present-day conditions, for neither goes sufficiently to the heart of the matter. Rising prices and expanding credit are, indeed, invariably associated with inflation, and are aspects of inflation which most directly concern the individual. But from the point of view of the economy as a whole, the most significant feature of inflation is not to be found in those phenomena; it lies in the fact that inflation is a means of exacting forced savings from the public. In peacetime, an inflationary boom of the traditional type permits an over-expansion of the capital goods industries; that is, it diverts to those industries a larger proportion of current productive resources than would be placed at their disposal by voluntary savings alone. Similarly, an inflation like that of 1914-18 enables a Government—which has the spending of the additional purchasing power—to divert to the war effort more resources than it could command through taxation and spontaneous savings out of existing incomes. In either case, it is the forcible diversion of resources away from the production of

consumers' goods—in other words, forced saving—that is the essence of the process.

Now, if it is forced saving that we are seeking to measure, price movements are clearly the appropriate criterion only in a completely free and uncontrolled economy, since it is only in such an economy that forced savings are exacted solely through the mechanism of rising prices. Let us consider this in greater detail. The classic mechanism of inflation in a free economy is familiar enough. The Government wishes to obtain control for war purposes of a larger proportion of total output than would be placed at its disposal by taxation and voluntary saving. To achieve this, it spends in excess of its current receipts from those sources, paying out as income newly-created money. Competing with the existing flow of spending, this diverts resources to the Government by bidding up prices and so reducing the purchasing power of the existing incomes. In the next stage, a larger dose of inflation will be needed to secure for the Government an equal command over resources, since prices and the money incomes of the public have both been increased by the initial dose of inflation. Hence the process tends to be cumulative and to end in a galloping price rise which undermines confidence in the currency. It involves, moreover, a double measure of social injustice: for the forced savings are exacted mainly from those with small or fixed incomes, whereas the bidding-up process gives rise to a profit inflation which leaves the additional national debt created in other hands than those of the people who have actually suffered the deprivations involved.

It has been said that the inflationary process is initiated by a creation of new money, the issue of additional notes or an expansion in bank credit. But the continuance of the process does not necessitate a continuing and corresponding expansion in the stock of money. Once the inflation is under way, the forced savings generated in the first stage, and held *initially* in the form of cash or bank credit, may well find their way into longer-term government loans. Such subscriptions drain off some of the additional credit created in the first period, so that an equivalent amount can be re-spent without a further net increase in the means of payment. Under such conditions, indeed, bumper subscriptions to long-term loans, or extreme buoyancy of revenue, merely drain off the paper profits of earlier inflation and must be regarded as an index of inflation

rather than of financial soundness. The result, in any event, is that the increase in the volume of money may well lag behind the rise in prices; in the terminology of the quantity theory, the average velocity of turnover of bank deposits may rise, so that a given volume of credit can support a higher level of prices. Whether or not that in fact happens, what is really significant is not the movement in the volume of bank credit, or the total stock of money, but the total *flow of spending* from all sources in relation to the real resources available.

In spite of belated and amateurish attempts at rationing and price control, the inflation of the 1914–18 war was basically of the classical pattern already described—a scramble for resources in a largely uncontrolled economy, with attendant profit inflation and wages lagging behind prices. But that picture clearly bears little resemblance to the methods and conditions of the war just ended. It was, in fact, an outstanding feature of this war, by contrast with the earlier one, that the allocation of resources between Government and the civil population was not left to the workings of the price mechanism and the bidding-up process. It was decided, once the framework of control had been erected, by direct restraints on spending: by rationing, price control, restriction of non-war capital formation, allocation of raw materials, requisitioning of property and direction of labour under essential work orders.

In a controlled economy, deficit finance takes on a completely new character. Indeed, in the extreme case it need not be associated with rising prices at all. Let us suppose that the network of control eventually elaborated had been clamped on at the outbreak of war, and that in addition both wage rates and consumption goods prices had been frozen. Automatically, any increase in total output, together with some resources normally devoted to producing consumer goods or maintaining capital, would be diverted to the Government. Money incomes would rise only as the reflection of an increase in total output; and expenditure on consumption would automatically be curtailed in direct proportion to the cut in the supply of goods available for purchase. (1) By hypothesis, there could be no rise in prices (except in response to any increase in *real* production

(1) The market price of consumer goods could, of course, be raised by indirect taxes. Our statement refers to expenditure on consumption at factor cost. (For definition see note on p. 43).

costs or in indirect taxation). If consumption is curtailed and prices are prevented from rising by direct controls of this kind, it is true that the distribution of the national income as between individuals, and even between broad classes of the community, will be very different from that produced by inflation in an uncontrolled economy. As between the Government and the public *taken as a whole,* however, the position will be fundamentally the same as in a normal inflation. The Government's command of current resources is no less effectively increased, and that of the public no less effectively reduced, by either technique. Instead of the " forced savings " of the textbooks, in other words, we are confronted in a controlled economy with a new concept : the *involuntary* savings of a people prevented by direct controls from spending on consumption as large a proportion of their money incomes as they would wish. That does not mean *active* inflation, if it is desired to reserve that term for a rise in prices. But the savings generated by the physical restraints on spending have their counterpart in an addition to the national debt, either held directly by the public or held indirectly on their behalf by the banks as the equivalent of an increase in their deposit liabilities. To the extent that the savings are involuntary, there will be a tendency—almost regardless whether they are held meanwhile in liquid or long-term form—for them to be spent whenever the physical controls are relaxed. In other words, involuntary saving may be described as the " suppressed inflationary potential." The word potential is necessary, because it may be—and we hope will be—that when the controls are removed sufficient goods will be available to permit the spending of these savings without an inflationary rise in prices.

To sum up the argument of this section : In a controlled economy, deficit spending as such need not drive up prices at all, but it involves the danger—by no means the certainty—of active inflation at some later stage. It will be objected, however, that prices nevertheless have risen and are rising, notwithstanding all the elaborate controls. That might admittedly mean that we have not relied exclusively on the technique of control but to some extent on the bidding-up process, as was undoubtedly true in the initial stages of the war and in some unimportant sectors of the economy throughout. But there is an alternative, and surely a more convincing, explanation : that for the most part the war-time rise in prices has reflected an

antecedent rise in costs, and especially in wage rates. The rising trend, in other words, has been the product not of financial technique (which at any rate from 1941 onwards could have achieved its purpose without forcing up prices at all) but of our methods of wage negotiation. For wage inflation may not be in its causation a monetary phenomenon at all. It may be compared to the rise in the cost of imports, and therefore of some domestic prices, at the outbreak of war for reasons that had nothing to do with our domestic monetary policies. A rise in wage costs may be equally independent of the methods of war finance adopted and of the general monetary situation. It is true that a wages spiral could theoretically be checked by a deflationary monetary policy; but that does not

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TABLE A.

**MOVEMENT OF SOME OF THE MAIN SERIES**
**(1938 = 100)**

| | 1939 | 1940 | 1941 | 1942 | 1943 | 1944 | 1945 |
|---|---|---|---|---|---|---|---|
| PRICES— | | | | | | | |
| Cost of living index .. .. .. | 102 | 119 | 128 | 129 | 128 | 130 | 131 |
| All consumption goods—market value .. .. .. .. | 103 | 120 | 137 | 147 | 155 | 155 | 158 |
| All consumption goods—factor cost | 101½ | 117 | 128 | 136 | 141 | 143 | 148 |
| Wage rates .. .. .. .. | 100 | 111½ | 121½ | 130 | 135½ | 142½ | 149 |
| Goods and services bought by public authorities* .. .. .. | 100 | 115 | 125 | 130 | 135 | 137½ | 137½ |
| All output† .. .. .. .. | 101 | 116 | 126 | 132 | 137½ | 141½ | 142 |
| OUTPUT— | | | | | | | |
| Consumption goods .. .. | 100 | 90 | 83 | 82 | 79 | 83 | 86 |
| Gross national product .. .. | 106 | 109 | 115 | 121 | 123 | 125 | 125 |
| Total available output‡ .. .. | 109 | 121 | 126 | 128 | 131 | 132 | 134 |
| INCOMES— | | | | | | | |
| Net national income .. .. | 107½ | 128½ | 149 | 165 | 176 | 182 | 184 |
| Personal income .. .. .. | 105 | 120 | 134 | 148½ | 160 | 168 | 175 |
| Disposable personal income§ .. | 104 | 118 | 129 | 139 | 148 | 153½ | 161 |
| Private income .. .. .. | 107 | 126 | 145½ | 160 | 171½ | 179 | 184 |
| National wages bill .. .. .. | 106 | 122 | 139 | 155 | 164 | 166½ | 164 |

* *Economist* estimate.

† Derived from indices for consumption goods, capital goods and public expenditure. Prices in capital sector assumed to have moved in line with consumption goods.

‡ Gross national product plus borrowing from abroad.

§ Personal income less direct tax payments and provision for accrued direct taxes.

mean that its emergence must be due to an inflationary monetary policy. (1)

Two opposite—but not, unfortunately, equal—forces have been simultaneously at work. On the one hand, successive Chancellors have sought to force down the public's purchasing power into some accord with the inescapable fall in our national standard of living, by dint of increases in taxation which, though penal, are based on canons of equity. At the same time, individual trade unions have sought, consciously or unconsciously, to enable their particular members to avoid any reduction in their own standard of living by pressing for higher money wages. For the most part, the wages spiral fails in the long run to benefit even those participating in it; but the gains are not completely illusory, for the spiral does enable organized labour to increase its relative share of the goods available, at the expense of property-owners, those whose savings are invested in Government debt, pensioners, salary-earners and, indeed, of other wage-earners whose incomes lag behind the general

TABLE B.

## AVAILABLE RESOURCES AND THEIR ALLOCATION

### (a) At Factor Cost and Current Prices

| | 1938 | 1939 | 1940 | 1941 | 1942 | 1943 | 1944 | 1945 |
|---|---|---|---|---|---|---|---|---|
| | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. |
| Gross national product at factor cost .. .. .. | 5,085 | 5,445 | 6,427 | 7,401 | 8,120 | 8,638 | 8,921 | 9,003 |
| Drafts on external capital .. | 70 | 250 | 804 | 816 | 663 | 680 | 659 | 819 |
| Total resources available .. | 5,155 | 5,695 | 7,231 | 8,217 | 8,783 | 9,318 | 9,580 | 9,822 |
| Home capital formation, gross | 759 | 809 | 357 | 153 | 254 | 228 | 205 | 515 |
| Resources available for public authorities and private consumption .. .. .. | 4,396 | 4,886 | 6,874 | 8,064 | 8,529 | 9,090 | 9,375 | 9,307 |
| Public expenditure on goods and services .. .. | 794 | 1,227 | 3,078 | 4,225 | 4,519 | 5,084 | 5,090 | 4,725 |
| Consumption .. .. .. | 3,602 | 3,659 | 3,796 | 3,839 | 4,010 | 4,006 | 4,285 | 4,582 |

(1) In the early stages of the war, wage *rates* admittedly lagged behind the rise in the official cost of living index; but wage and salary *incomes* fully kept pace with the general rise in prices even in that stage. There is little evidence, in other words, that real consumption was being curtailed by a depreciation in the purchasing power of money wages; the check came through the financial restraint of increased taxation coupled with the direct restraint of the physical controls.

movement. This is not said in any attempt to apportion blame but as an objective statement of fact. To impute blame would indeed be pointless. Given the widespread tendency to think in terms of money wages instead of real wages (an unconscious tribute to the normal stability of our monetary system), and given the fact that trade unions have evolved for the primary purpose of pressing for higher money wages whenever the traffic will bear an increase, a wages spiral was inevitable.

The rise in prices during this war, in short, has been almost entirely a cost inflation and not a profit inflation of the 1914-18 pattern. It, therefore, has little connection with forced saving or at best provides only a partial measure thereof. For the most part, forced saving has been exacted by direct restraints on spending. Hence in tracing war-time inflation on this occasion we must have regard to two quite distinct phenomena: the active inflation reflecting mainly the wages spiral, and the suppressed inflationary potential generated by the controls. Unfortunately, it is only the active inflation which can readily be measured. Indeed, that can be done quite simply by reciting the rise in various price levels, as shown in Table A. It is suggested, however, that rather greater insight into the mechanics of inflation can be gained from another method of presenting the data.

TABLE C.

**AVAILABLE RESOURCES AND THEIR ALLOCATION**

**(b) At Factor Cost and 1938 Prices**

| | 1938 | 1939 | 1940 | 1941 | 1942 | 1943 | 1944 | 1945 |
|---|---|---|---|---|---|---|---|---|
| | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. |
| Gross national product at factor cost .. .. .. | 5,085 | 5,382 | 5,533 | 5,863 | 6,136 | 6,283 | 6,360 | 6,340 |
| Drafts on external capital .. | 70 | 248 | 688 | 636 | 490 | 482 | 456 | 558 |
| Total resources available .. | 5,155 | 5,630 | 6,221 | 6,499 | 6,626 | 6,765 | 6,816 | 6,898 |
| Home capital formation, gross | 759 | 800 | 305 | 118 | 188 | 161 | 142 | 348 |
| Resources available for public authorities and private consumption .. .. .. | 4,396 | 4,830 | 5,916 | 6,381 | 6,438 | 6,604 | 6,674 | 6,550 |
| Public expenditure on goods and services .. .. .. | 794 | 1,227 | 2,675 | 3,380 | 3,475 | 3,760 | 3,700 | 3,435 |
| **Consumption** .. .. .. | 3,602 | 3,603 | 3,241 | 3,001 | 2,963 | 2,844 | 2,974 | 3,115 |

For this, we require first a measure of the volume of physical output and its allocation between different uses. And that cannot be obtained directly from the White Paper, which measures income and output at prevailing prices and gives an index of price changes only for the consumption goods sector. To complete the picture, we must thank the private enterprise of *The Economist*, which has put forward its own estimates of the rise in prices of capital goods and of the things purchased by public authorities (notably, of course, munitions and other war supplies). It is freely admitted that the index chosen is largely arbitrary and a matter of guesswork rather than estimation; but it is certain that the prices of war goods rose less than those of consumption goods (owing to mass production methods). The assumed changes as shown in Table A thus appear reasonable.

Using these price indices, it is possible to revalue the White Paper figures in terms of 1938 prices, so that the changes then shown from year to year measure changes in the volume (and not the price level) of production. This has been done in Table C. The total resources available for all purposes, it will be seen, consist of our own gross national product—our total output, including that portion required for the maintenance and amortization of capital—*plus* supplies received from abroad on

TABLE D.

**AVAILABLE RESOURCES AND THE "INFLATION FACTOR"**

**Change on previous year**

| | 1939 | 1940 | 1941 | 1942 | 1943 | 1944 | 1945 |
|---|---|---|---|---|---|---|---|
| | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. |
| Resources available for public authorities and private consumption (at 1938 prices) .. | +434 | +1,086 | +465 | + 57 | +166 | + 70 | −124 |
| Public expenditure on goods and services (at 1938 prices) | +433 | +1,448 | +705 | + 95 | +285 | − 60 | −265 |
| Supply of consumption goods (at 1938 prices) .. .. | + 1 | − 362 | −240 | − 38 | −119 | +130 | +141 |
| Indicated change in consumption spending, at values of previous year, if rise in prices halted .. .. | + 1 | − 367 | −281 | − 49 | −161 | +183 | +209 |
| Actual change in consumption spending, at current values | + 57 | + 137 | + 43 | +171 | − 4 | +279 | +297 |
| "Inflation Factor" .. .. | 56 | 504 | 324 | 220 | 157 | 96 | 88 |

credit or against payment in gold or other external assets.[1] These resources were allocated between three basic uses: public expenditure, capital formation at home, and consumption. After providing for home investment, in other words, public expenditure and private consumption are in direct competition for the remaining resources. Hence, the supply of consumption goods is governed, first by the trend of total resources after providing for investment, and secondly by the trend of public expenditure.

Table D analyses the changes in these magnitudes from year to year. In 1940, for example, the supplies available for public authorities and private consumption rose by £1,086 millions, but public expenditure increased by £1,448 millions, reducing the supply of consumption goods by £362 millions (all measured at 1938 prices). If the prices of consumers' goods were not to rise during 1940, therefore, consumption expenditure would have to *fall* by £362 millions at 1938 prices, or £367 millions at the prices current in 1939. Actually, consumption spending in 1940 *rose* by £137 millions, so that what we propose to call the "inflation factor" in that year amounted to £504 millions.

This concept of an "inflation factor" must, of course, be used with care.[2] In the first place, the actual figures shown have no particular validity, being derived partly from arbitrary assumptions about the movement of prices. Quite small errors in the estimation of price movements would substantially affect the apparent size of the inflation factor. Secondly, the latter does *not* mean that the price rise could in fact have been halted if only taxation and savings had at that point been stepped up by the amount shown. From 1941 at any rate, as has been said, the actual rise in prices was produced mainly by the wages spiral, *i.e.* by institutional factors quite independent of the technique of finance.

If the figures are accepted, it will be seen that the implications are highly reassuring, perhaps surprisingly so, for the last two years. The inflation factor of 1940 was by far the largest.

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(1) Lend-lease and mutual aid is rightly excluded, as forming part of the war effort of the country sending these supplies, not of our own war effort. Goods produced abroad are reckoned as part of the British war effort if they are paid for by exports, gold or foreign exchange, or constitute a post-war liability. Where Lend-lease goods enter into consumption, government expenditure is correspondingly reduced.

(2) Arithmetically, of course, it measures simply the increase in the value of the total supply of consumers' goods attributable to the rise in average prices over the year, and the figures arrived at are implicit in the price indices adopted for the calculation of changes in the national product in real terms.

In 1944, a small increase in available resources coupled with a slight fall in Government demands permitted a modest recovery in consumption. In the following year, a further slight rise in consumption was made possible by a decline in public expenditure greater than the decline in available resources. In both years, the " factor " appears to have been negligible—less than £100 millions on our figures. This conclusion is, of course, in direct contradiction with the gloomy construction commonly placed on the decrease in personal saving from the 1943 peak, notwithstanding the subsequent rise in incomes.

So much for *active* inflation. No similar estimate can be attempted for the amount of *involuntary* saving generated by the controls. Still less is it possible to estimate how long it may take before the pressure to spend involuntary savings will have subsided and the removal of controls becomes a practical proposition. One can only record that over the past six years public borrowing at home has aggregated close on £15,000 millions, having its counterpart in the sterling balances accumulated by our overseas creditors, in unspent depreciation allowances, personal saving and undistributed profits. For some time war damage repairs, rehousing and the reconstruction of industry must place a very great pressure on new savings. That pressure will only be aggravated by attempts to liquidate the involuntary savings of the past, on the part either of our own people or of overseas holders of sterling.

Other things equal, the supply of voluntary savings under present conditions would undoubtedly be very ample. Kaldor has estimated (1) that before the war as much as one-third of any increase in income would be saved, indicating savings of £560 millions (at 1938 prices) out of a pre-war full employment income. This was placed only some 10 per cent. above the actual 1938 national income, whereas real output last year appears to have been as much as 25 per cent. higher. If anything like this level of production can be maintained, and if the estimate of one-third for marginal saving can be considered applicable in face of such sweeping changes, we could apparently count in normal conditions on annual net saving of the order of £1,250 millions a year, permitting gross investment of the order of £1,800 millions. This suggests that a position of equilibrium, allowing the removal of controls, should be

(1) Appendix C to " Full Employment in a Free Society," by Sir William Beveridge.

attainable within a relatively short period. In the meantime, the admitted need for maintaining the controls is merely another way of saying that in a free economy voluntary savings would at present fall far short of requirements.

Probably the only moral to be drawn is the unpalatable and all too familiar one: that if the public wishes to be rid of queues and rationing it must be willing not only to work hard but also to save voluntarily, and not merely under compulsion, a large proportion of its total income. So long as the controls remain and are effective the total volume of consumption will be as much under the control of the Government as during the war; and if Government policy provides for some increase in consumption, as it must, then the aggregate volume of saving will automatically show a corresponding decline as a mere reflection of that policy, while the flow of subscriptions into new Government securities will be further reduced by the revival of private capital issues. What is important, however, is that *willingness* to save should be well maintained; for it is the willingness to save, and not the actual volume of saving, which governs the pressure on the controls. Any hope of a return to a free economy is intimately bound up with the need for a revival of the National Savings effort. Meanwhile, the chief danger of inflation comes not from the general monetary situation but from an acceleration of the wages spiral, due to the removal of Essential Works Orders and resulting bidding up for labour.

# Indian Cotton

*By P. G. Oulton*

To see the present Indian cotton position in perspective the current situation must be viewed against the background of the pre-war position. This will bring into relief the changes brought about by the war, many of which may well remain permanent.

Amongst the numerous changes which have occurred, one is of outstanding importance and may continue for a period of years. This major change is the fact that in the years prior to 1939 India exported some 52 per cent. of what she grew, whereas to-day her crop is not sufficient for her own needs cotton output having been perforce curtailed in order to expand the production of food. The position is further aggravated by the fact that out of current production perhaps 5 per cent. is of surplus short staple which is not, under present conditions, required for spinning in India. This short-fall in production is at present being filled by drafts on stocks. Unless the growth of Indian cotton of suitable variety is increased, however, the deficit may in the future have to be filled by imports should the carry-over become exhausted. In normal circumstances this increase would present little difficulty but circumstances have not been normal, nor do they look like being so for a long time ahead.

The recent reduction in the Indian crop has been necessitated by the urgent need to grow more food and this necessity persists to-day in an even greater degree than in the past year or two. Drastic cuts in cotton acreage have been made. It is estimated that the current crop is produced on 14,440,000 acres of land, as compared with 23,490,000 acres in production during the cotton season for the 12 months ending August 31st, 1939. The hope of a larger production in the near future must depend on better methods of cultivation rather than on the allocation of more land. Unfortunately, it must be some time before improved methods of cultivation, if they are adopted, can be expected to reflect themselves in increased output.

The carry-over shown below does not include mill stocks, which in 1939 were 986,000 bales, equal to 3½ months' consumption. For 1946 they may be estimated at 1,540,000 bales, equivalent to 4¼ months' consumption.

## Comparative Statistical Position (Indian Cotton).

(Cotton Season is from September 1st to August 31st.)

(*In thousands of Bales*)

| | Supply | | | Distribution | | | |
|---|---|---|---|---|---|---|---|
| | Free Carry-over (Start of Season) | Crop | Total | Mills Consumption | Exports | Total | Free Carry-over (End of Season) |
| 1938–39 .. | 2,350 | 5,720 | 8,070 | 3,151 | 3,294 | 6,445 | 1,625 |
| 1945–46 .. (Estimated) | 3,310 | 3,920 | 7,230 | 4,360* | 1,000† | 5,360 | 1,870 |

* The war time peak was 4,307 in 1942–43.

† Actual business done is around 800,000 bales, and there is some hope that a total of 1,000,000 bales will be permitted.

*Crop.*—The decline has been one not only of quantity but also of quality. It was realized that the stoppage of exports, occasioned by war, deprived India of many markets, notably Japan, which took a considerable amount of cotton grown in India but unsuitable for Indian mills. The problem was, therefore, to grow better raw material for local consumption. This was rendered all the more imperative by the fact that Government war orders called for materials embodying good quality cotton.

This was the chief cause prompting the development of a new growth called Jarilla, and which to-day represents some 15 per cent. of the total production. Its spinning capacity in India varies between 14's and 24's warp according to quality, and it has largely replaced the "Desi" variety grown throughout Khandesh, Berar, Central Provinces' Hyderabad (Deccan) and Central India. Broadly speaking, it may be said to have replaced the variety of Oomras which has been a household word to the cotton world for very many years past.

Other noticeable changes included the virtual replacement of the old variety in the Broach tract by "Vijay." This has been a great success, combining all the previous properties of a high grade with a considerably improved staple.

*North.*—In the Punjab, long staple cotton increased slightly, LSS also, and the latter largely at the expense of the shorter staple 4F. The production of Bengals, however,

much decreased and was only about 50 per cent. of pre-war figures. In Sind, long staple also increased at the expense of the Desi variety.

*South.*—The change here has not been so fortunate and generally speaking there has been more deterioration than improvement. Especially is this noticeable in the case of Westerns and Oomras.

*Mill Consumption.*—Little need be said here except to stress the fact that even to-day production is still far short of demand, notwithstanding an increase in output of some 36 per cent. Recent production figures are not yet available, but it is interesting to note the changes which have taken place in spinning counts ranges compared with total production of yarn :

| (In '000' lbs) | Calendar Year 1939 | Calendar Year 1945 (Based on first 9 months) |
|---|---|---|
| Counts range up to 10's .. | 136,571 | 181,392 |
| " " 11's to 15's .. | 201,968 | 403,289 |
| " " 16's to 20's .. | 349,491 | 457,097 |
| " " 21's to 30's .. | 341,310 | 335,848 |
| " " 31's to 40's .. | 167,746 | 160,272 |
| " " Above 40's .. | 91,613 | 81,577 |
| TOTALS | 1,288,699 | 1,619,475 |

## Exports

The question of exports of cotton is one which greatly affects the economy of the country as a whole. In 1938–39 they represented 34 per cent. of the total exports of "raw materials and produce chiefly unmanufactured," and the average for the five years before was 42 per cent.

Throughout the War, exports ranged between 126,000 and 797,000 bales. A point of interest is the increased takings of the U.S.A. In 1938–39 the figure was only about 30,000 bales.

As regards current exports, it is understood that actual business done is around 800,000 bales, and there is some possibility of Government permitting up to 1,000,000 bales for the season.

There has, of course, been a very considerable decline in exports, as well as important changes in the destination of

shipments. Both movements are brought out by the following table (figures are for bales) :

| | Season 1938–39 | Season 1945–46 (8 months to 25–4–46) |
|---|---|---|
| U.K. .. .. | 402,000 | 124,000 |
| Europe, etc. .. | 826,000 | 141,000 |
| China, etc. .. | 851,000 | 122,000 |
| Japan .. .. | 1,288,000 | — |
| U.S.A., etc. .. | No separate figures | 170,000 |
| Others .. .. | No separate figures | 31,000 |
| | 3,367,000 | 588,000 |

The above analysis deals only with matters peculiar to Indian cotton, but mention must be made of imported cottons also. Throughout the war period, with certain interruptions, cotton continued to come in from Africa, the Sudan and Egypt, but other growths were not normally available to this market, a primary reason in certain cases being the exchange difficulty.

Quotas from Africa and the Sudan were allotted at fixed prices and a buying commission was created in Egypt to handle that style.

Recently, the Government has permitted the import of cotton from outside the sterling area, and following this nearly 60,000 bales of Peruvian Tanguis have been booked. This was occasioned largely by the small African crop which has resulted in a reduction of India's quota from this source and so necessitated replacement elsewhere for her 40's counts.

"*Futures*" *Contract*.—Prior to the outbreak of war, the Broach contract (as it was then termed) ruled between Rs.147 and 175¾ per candy. On the outbreak of war, prices advanced sharply, but after Dunkirk prices fell to Rs.149. They subsequently fluctuated within the wide range of Rs.321/- and 142/- until July, 1942, when a new contract named the Indian Cotton Contract was introduced. The basis of this was Fine M.G. Jarilla staple 3/4 in. The innovation was necessitated by the changes in the Indian crop. The new contract opened at Rs.355¼ on July 15th, 1942. Prices ruled from Rs.370 to Rs.300½. In the following year, 1942–43, prices rose to Rs.674/- which resulted in a Government Cotton Order prohibiting trading. This ban was lifted on

October 27th, 1943, subject to certain restrictions, and the opening price was Rs.471. The high and the low points touched during 1943–44 were 478 and the floor price of Rs.400/– as fixed by the Government. Trading in New Crop 1945, was suspended till September 19th, 1944, when I.C.C. March opened at Rs.434½. Fluctuating very widely, the contract declined to Rs.350/–, the new floor, but from that level it recovered to Rs.491¼ in 1946 on the fundamental strength of the statistical position.

To sum up, it can be said that the chief features of the current cotton position, compared with that before the war, are:

1. The shortage of cotton currently grown in India, relative to mills requirements.
2. The desirability of keeping Indian cotton in the export trade.
3. The shortage in mill production relative to consumer needs.

The first two are, in fact, interlocked and can be discussed together. The position has been, for many years, that India has imported cotton for counts above 30's, which she does not grow herself, whereas she has exported not only what she cannot spin herself, but also usable mill cotton which was surplus to requirements.

India could continue this policy for only a short time longer, since once the desirable styles in the carry-over (and there is much undesirable cotton in it) are exhausted, she would have to import cotton for 30's and below. In short it becomes a race between the exhaustion of the carry-over and the increase in cotton production.

The vital necessity of growing more food at the expense of cotton suggests that the carry-over will be exhausted before more cotton is produced. The Government of India consequently decided to take drastic action and on April 13th Indian cotton exports were made subject to licence and the export of staple 13/16 of an inch and above was totally prohibited. It is also understood that a maximum of 800,000 bales, possibly 1,000,000, will be allowed for this season. Unless the new crop in India is to be a failure, this certainly will go a long way towards assuring the supply, while in an emergency cotton could be imported. The latter expedient might, however, be an expensive business.

None of this, naturally, assists the export business except in so far as our less desirable styles are concerned. However, it is rightly accepted that the export side of the equation must be reduced, and one can only hope that, whenever increased production of cotton is considered, a careful eye will be kept on the export market. Certain short staple styles, which are more attractive for export than for mill consumption, do, in fact, pay the grower relatively well having regard to the high yield of cotton received from the seed employed.

The third factor now presents itself. Cloth and yarn production cannot now be increased to any great extent without the introduction of new machinery. This again has, for some time past, been engaging the attention of Government. Last year a committee was appointed and made its report to Government, which has now accepted in principle many of its recommendations.

It is proposed to expand the 4,800 million yards of mill-made cloth to 7,200 million yards. This is not feasible at present and so the target for the next few years has been set to create 2¾ millions new spindles in addition to the 10¼ million now operating. This new spindleage will produce an additional 1,700 million yards of mill cloth. Together with the handloom production, this should produce about 18 yards per head of population and also permit 10 per cent. of the total production being exported.

The guiding principles behind the erection of these new spindles and the mills to contain them (some 68 if calculated at the rate of a declared economic unit, viz. 25,000 spindles and 600 looms) is that the situation is to be planned on an All-India basis, so that they may be sited throughout the country so far as practicable, and not just in one or two selected areas. In this way, employment would be spread out.

The handloom industry is to receive encouragement, and with this end in view, 25 per cent. of the new spindleage is to be left uncovered by looms.

Much time is bound to elapse before any substantial part of this programme can be in operation. Some alleviation may come from a decrease in demand, which is not unlikely, since Government spending in the country, due to war, is now vastly decreased, leaving the masses with less money to spend.

# STATISTICS

## Introductory Statement

*By R. A. Wilson*

IN the end pages of this and subsequent issues of the REVIEW we shall present in tabular or graphic form a limited and carefully chosen amount of statistical information.

In the selection and manner of presentation of these statistics we shall have certain well-defined objects in view. We shall not attempt to make these pages a comprehensive record of the financial and economic activities of this and other countries. Only the main figures relating to public revenue, expenditure and debt, to national income and product, to our external trade and to the banking system will be given regularly for record purposes. But from the great mass of statistical information available in such publications as the Monthly Digest of Statistics, the Board of Trade Journal, the Ministry of Labour Gazette and the general Press we shall extract and comment upon for our readers' benefit items which have special significance and importance, or which illustrate articles appearing in the REVIEW. We shall focus attention on the progress made in our reconstruction at home and the development of our trade abroad by a series of selected indices. Comparative figures will also be given of the economic activity of the U.S.A., the Dominions, India and other countries.

In general, by selection and comment we shall try to keep our readers abreast of all the more important trends in financial and economic affairs.

Finally, we would express the opinion that in spite of much progress made in recent years there is still room for more progress in statistical research and still too much reticence in the publication of available data.

# A Note on Definitions

Government White Papers containing statistics have their own vocabulary of technical terms. The words employed in this particular connection are not always intended to convey the more familiar meaning, but rather to restrict their general significance. For this reason a glossary of terms seems appropriate.

Personal Income includes, in addition to the income of persons proper, that of non-profit-making bodies such as charities.

Private income is made up of personal income plus " other private income." The latter item represents that part of the receipts of companies and other profit-making bodies which is not paid out in wages, salaries, rent, interest and dividends, i.e. " other private income " comprises the sums available for payment of company taxes and those retained as undistributed profits.

Transfer Payments are incomes other than those earned by current economic activity; typically, pension payments or unemployment allowances. The distinction between an earned income and a transfer payment is brought out very clearly by the treatment of payments made to members of the Armed Forces. The defence of the realm is treated statistically as part of the net national product, so that the pay and allowances of the Armed Forces are classed as earned incomes. On the other hand, the pay and allowances of members of the Armed Forces *on release leave,* and the war gratuities and post-war credits of members of the Armed Forces, are not regarded as payable in return for services currently rendered and are consequently treated as transfer payments.

Another example is to be found in the treatment of interest. Interest on industrial capital is treated as part of the national income (the contribution to the national income of the capital so employed), whereas national debt interest is treated as a transfer payment.

Factor Cost.—Goods or services may be valued either at market price or at factor cost. Market value *includes* that part of the price attributable to any indirect taxes, but excludes subsidies; factor cost *excludes* indirect taxes but includes

subsidies, and thus measures the incomes received by the factors, i.e. those engaged in producing the commodity. The divergence between market price and factor cost is, of course, greatest in the case of those products, such as tobacco and alcoholic beverages, where indirect taxes make up the greater part of the market price of the product. The sum of all the payments made to the factors of production (including the pay and allowances of the Armed Forces) is, of course, the net national income at factor cost.

Gross and Net National Product.—In some contexts the gross or net national income at factor cost is the appropriate concept to employ, in others the gross or net national product at market value. The *gross* national product includes sums required for depreciation and maintenance of capital; the *net* national income is the residue left after amortizing capital, and which may thus be properly regarded as the national output for the year in question. The sum of the market prices of all the goods produced during the year, after providing for replacement of the capital used up in their production, is the net national income at market price. It is equal to the net national income at factor cost *plus* indirect taxes net of subsidies, *less* depreciation allowances. Since the total of incomes paid out in any year necessarily equals total expenditure during that year (being simply another way of looking at the same set of transactions) the terms national income, national product, national outlay or national expenditure may be used interchangeably to denote the same monetary magnitude.

## PUBLIC REVENUE AND EXPENDITURE

| | 1937/8 Actual. | 1944/5 Actual. | 1945/6 Estimate. | 1945/6 Actual. | 1946/7 Estimate. |
|---|---|---|---|---|---|
| REVENUE— | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. |
| Income Tax .. .. .. .. .. | 298 | 1,317 | *1,350* | 1,361 | *1,111* |
| Sur-Tax .. .. .. .. .. | 57 | 74 | *80* | 69 | *80* |
| Estate Duties .. .. .. .. | 89 | 111 | *115* | 120 | *140* |
| Stamps .. .. .. .. .. | 24 | 17 | *19* | 25 | *29* |
| National Defence Contribution .. | 1 | 33 | *500* | 35 | *325* |
| Excess Profits Tax .. .. .. .. | | 477 | | 431 | |
| Other Inland Revenue .. .. .. | 2 | 1 | *1* | 1 | *1* |
| Customs .. .. .. .. | 222 | 579 | *589* | 570 | *595* |
| Excise .. .. .. .. .. | 114 | 497 | *541* | 541 | *592* |
| Motor Duties .. .. .. .. | 35 | 29 | *30* | 43 | *45* |
| Surplus Stores and Trading Services.. | — | — | — | — | **200* |
| Wireless Licences .. .. .. | 10 | 5 | *5* | 5 | *5* |
| Crown Lands .. .. .. .. | 1 | 1 | *1* | 1 | *1* |
| Sundry Loans—Receipts .. .. | 5 | 7 | *11* | 11 | *15* |
| Miscellaneous .. .. .. .. | 14 | 90 | *23* | 71 | *22* |
| Total .. .. .. .. | 872 | 3,238 | *3,265* | 3,284 | *3,161* |
| SELF-BALANCING— | | | | | |
| Post Office and Broadcasting .. .. | 76 | 117 | *114* | 116 | *121* |
| Income Tax on Post-War Refunds of Excess Profits Tax .. .. .. | — | — | — | 1 | — |
| TOTAL .. .. .. | 948 | 3,355 | *3,379* | 3,401 | *3,282* |
| EXPENDITURE— | | | | | |
| National Debt .. .. .. .. | 216 | 415 | *465* | 455 | *490* |
| Payments to Northern Ireland .. | 9 | 10 | *11* | 12 | *20* |
| Issues to National Land Fund .. | — | — | — | — | *50* |
| Other Consolidated Fund Services .. | 3 | 7 | *8* | 8 | *8* |
| Total .. .. .. .. | 228 | 432 | *484* | 475 | *568* |
| Sinking Fund .. .. .. .. | 11 | 5 | — | 10 | — |
| Total .. .. .. .. | 239 | 437 | *484* | 485 | *568* |
| Supply Services—Defence .. .. | †197 | 5,626 | *5,343* | 4,999 | *1,192* |
| Civil .. .. | 408 | | | | *2,126* |
| Total .. .. .. .. | 844 | 6,063 | *5,827* | 5,484 | *3,886* |
| SELF-BALANCING— | | | | | |
| Post Office and Broadcasting .. .. | 76 | 117 | *114* | 116 | *121* |
| Post-War refunds of Excess Profits Tax | — | — | — | 1 | — |
| TOTAL .. .. .. | 920 | 6,180 | *5,941* | 5,601 | *4,007* |

† Does not include £65 millions met out of loans under the Defence Loans Act.

* Up to March, 1946, the proceeds of Surplus Stores had realised £62 mn. which was deducted from the Vote of Credit expenditure of the Departments concerned.

## NATIONAL INCOME AND PRODUCT

| | 1938 | 1939 | 1940 | 1941 | 1942 | 1943 | 1944 | 1945 |
|---|---|---|---|---|---|---|---|---|
| | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. |
| Personal income before tax .. .. | 4,772 | 5,010 | 5,720 | 6,400 | 7,087 | 7,643 | 8,019 | 8,351 |
| *Plus* Other private income before tax.. | 259 | 369 | 615 | 919 | 962 | 980 | 975 | 900 |
| Private income before tax .. .. .. | 5,031 | 5,379 | 6,335 | 7,319 | 8,049 | 8,623 | 8,994 | 9,251 |
| *Less* Transfer payments from public authorities to the private sector .. | –475 | –469 | –484 | –522 | –581 | –652 | –724 | –891 |
| Private income from current economic activity .. .. | 4,556 | 4,910 | 5,851 | 6,797 | 7,468 | 7,971 | 8,270 | 8,360 |
| *Plus* Public income from trading property, etc... .. | 54 | 50 | 71 | 89 | 132 | 147 | 131 | 123 |
| National income (or net product at factor cost) .. .. | 4,610 | 4,960 | 5,922 | 6,886 | 7,600 | 8,118 | 8,401 | 8,483 |
| *Plus* Sums allowed for depreciation and maintenance .. | 475 | 485 | 505 | 515 | 520 | 520 | 520 | 520 |
| Gross national product at factor cost | 5,085 | 5,445 | 6,427 | 7,401 | 8,120 | 8,638 | 8,921 | 9,003 |
| *Plus* Indirect taxes net of subsidies .. | 601 | 669 | 827 | 1,089 | 1,207 | 1,295 | 1,256 | 1,188 |
| Gross national product at market value .. .. | 5,686 | 6,114 | 7,254 | 8,490 | 9,327 | 9,933 | 10,177 | 10,191 |

## DISPOSITION OF PERSONAL INCOME

| Year. | Personal Income. | Direct Taxes. | | Indirect Taxes. | | Consumption at factor cost. | | Savings* | |
|---|---|---|---|---|---|---|---|---|---|
| | £ mn. | £ mn. | As a % of Personal Income. | £ mn. | As a % of Personal Income. | £ mn. | As a % of Personal Income. | £ mn. | As a % of Personal Income. |
| 1938 | 4,772 | 468 | *9·8* | 558 | *11·7* | 3,602 | *75·5* | 144 | *3·0* |
| 1939 | 5,010 | 492 | *9·8* | 612 | *12·2* | 3,659 | *73·1* | 247 | *4·9* |
| 1940 | 5,720 | 608 | *10·6* | 700 | *12·2* | 3,796 | *66·4* | 616 | *10·8* |
| 1941 | 6,400 | 793 | *12·4* | 882 | *13·8* | 3,839 | *60·0* | 886 | *13·8* |
| 1942 | 7,087 | 900 | *12·7* | 994 | *14·0* | 4,010 | *56·6* | 1,183 | *16·7* |
| 1943 | 7,643 | 1,163 | *15·2* | 1,076 | *14·1* | 4,006 | *52·4* | 1,398 | *18·3* |
| 1944 | 8,019 | 1,349 | *16·8* | 1,050 | *13·1* | 4,285 | *53·5* | 1,335 | *16·6* |
| 1945 | 8,351 | 1,443 | *17·3* | 1,063 | *12·7* | 4,582 | *54·9* | 1,263 | *15·1* |

* Includes provision for accrued taxation.
Source : White Paper Cmd. 6784.

## DISTRIBUTION OF PRIVATE INCOME BY RANGES OF INCOMES

| Range of income before tax | Number of incomes | Total income before tax | Total income after income tax and surtax (1) at | | Proportion of income before tax retained after deduction of taxes at | |
|---|---|---|---|---|---|---|
| | | | 1938–39 rates (3) | 1944–45 rates | 1938–39 rates | 1944–45 rates |
| | 000's | £ million | £ million | | Per cent. | |
| **Private Income in 1938—** | | | | | | |
| Private income at the disposal of individuals (2) which can be allocated to different ranges— | | | | | | |
| Under £250 (3) .. .. | .. | 2,681 | 2,676 | 2,616 | 99·8 | 97·6 |
| £250–£500 .. .. | 1,745 | 595 | 578 | 499 | 97·1 | 83·9 |
| £500–£1,000 .. .. | 500 | 350 | 311 | 244 | 88·9 | 69·7 |
| £1,000–£2,000 .. .. | 195 | 270 | 224 | 160 | 83·0 | 59·3 |
| £2,000–£10,000 .. .. | 97 | 360 | 256 | 170 | 71·1 | 47·2 |
| £10,000 and over .. .. | 8 | 170 | 84 | 35 | 49·4 | 20·6 |
| Unallocated private income .. | — | 605(4) | 499 | .. | 82·5 | .. |
| Total private income .. .. | — | 5,031(4) | 4,628 | .. | 92·0 | .. |
| **Private Income in 1944—** | | | | | | |
| Private income at the disposal of individuals (2) which can be allocated to different ranges— | | | | | | |
| Under £250 (3) .. .. | .. | 3,569 | 3,560 | 3,479 | 99·7 | 97·5 |
| £250–£500 .. .. | 5,200 | 1,830 | 1,785 | 1,590 | 97·5 | 86·9 |
| £500–£1,000 .. .. | 1,400 | 995 | 896 | 730 | 90·1 | 73·4 |
| £1,000–£2,000 .. .. | 520 | 729 | 606 | 454 | 83·1 | 62·3 |
| £2,000–£10,000 .. .. | 117 | 415 | 294 | 195 | 70·8 | 47·0 |
| £10,000 and over .. .. | 8 | 155 | 80 | 30 | 51·6 | 19·4 |
| Unallocated private income .. | — | 1,301(4) | .. | 573 | .. | 44·0 |
| Total private income .. .. | — | 8,994(4) | .. | 7,051 | .. | 78·4 |

(1) The estimates of income in this table relate to calendar years; the tax-rates used are those that were current in the fiscal years 1938–39 and 1944–45.
(2) A married couple is for income tax purposes counted as one individual.
(3) All transfer payments, other than interest on the national debt, have been included in the incomes below £250.
(4) Including all liabilities for National Defence Contribution and Excess Profits Tax, which are deducted together with income tax in arriving at retained income.

## NUMBER OF INDIVIDUALS (1) IN DIFFERENT RANGES OF NET INCOME ASSESSED IN 1938-39 AND 1944-45

| Range of income after tax | 1938–39 | 1944–45 |
|---|---|---|
| £150–£250 | 4,500,000 | 7,400,000 |
| £250–£500 | 1,820,000 | 5,050,000 |
| £500–£1,000 | 450,000 | 830,000 |
| £1,000–£2,000 | 155,000 | 186,000 |
| £2,000–£4,000 | 56,000 | 33,050 |
| £4,000–£6,000 | 12,000 | 890 |
| £6,000 and over | 7,000 | 60 |
| Total .. .. .. | 7,000,000 | 13,500,000 |

(1) A married couple is for income tax purposes counted as one individual.

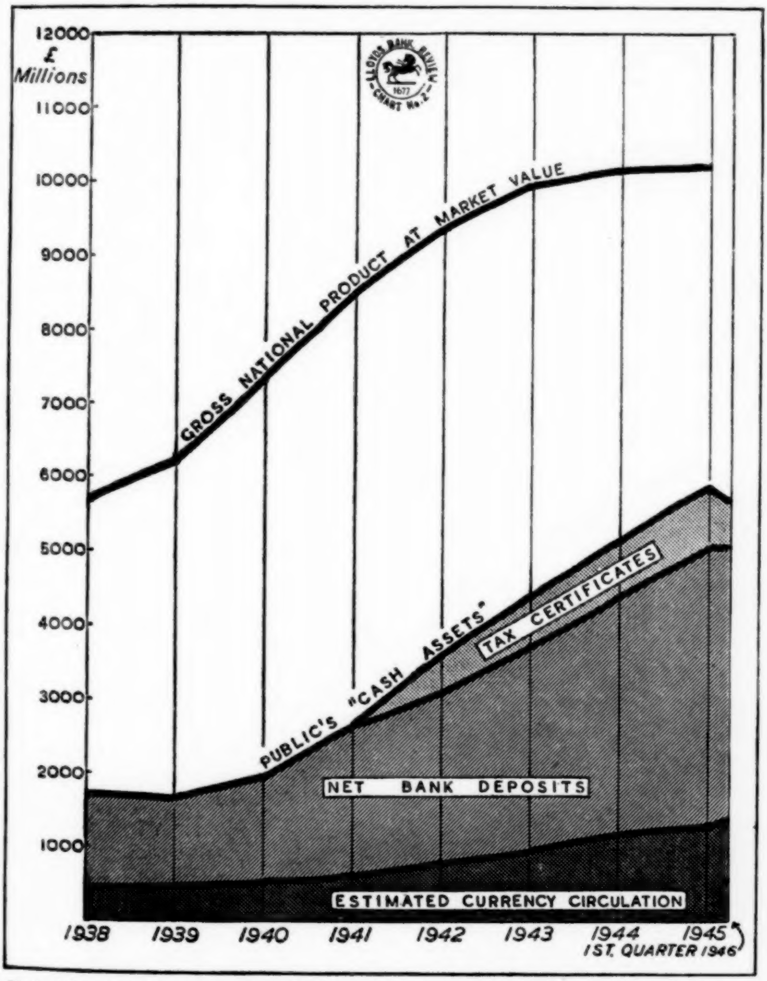
Source: White Paper Cmd. 6784.

## CURRENCY CIRCULATION.

Weekly averages

| Year | Bank of England Reserve | Held by Scottish Banks | Held by N. Irish Banks | Held by London Clearing Banks | Estimated Circulation | Totals of Notes and Coins Outstanding |
|---|---|---|---|---|---|---|
| | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. |
| 1938 .. .. .. | 44 | 24 | 4 | 117 | 446 | 635 |
| 1939 .. .. .. | 41 | 25 | 4 | 129 | 459 | 658 |
| 1940 .. .. .. | 34 | 29 | 5 | 138 | 525 | 731 |
| 1941 .. .. .. | 34 | 32 | 7 | 142 | 608 | 823 |
| 1942 .. .. .. | 37 | 42 | 9 | 147 | 769 | 1,004 |
| 1943 .. .. .. | 38 | 52 | 12 | 149 | 933 | 1,184 |
| 1944 .. .. .. | 32 | 59 | 14 | 154 | 1,105 | 1,364 |
| 1945 .. .. .. | 28 | 66 | 14 | 148 | 1,262 | 1,518 |
| 1946 (1st Quarter) .. | 67 | 67 | 15 | 148 | 1,318 | 1,615 |

## THE NATION'S "CASH" SUPPLY AND THE GROSS PRODUCT.




Net Bank Deposits = Deposits less advances and less balances with other banks and items in course of collection.

## EXTERNAL TRADE OF THE UNITED KINGDOM.

| | 1938 | 1939 | 1940 | 1941 | 1942 | 1943 | 1944 | 1945 | Jan. to March, 1946 |
|---|---|---|---|---|---|---|---|---|---|
| | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. |
| Imports .. .. | 919 | 886 | 1,152 | 1,145 | 996 | 1,232 | 1,306 | 1,101 | 279 |
| Exports—U.K. Goods | 471 | 439 | 411 | 365 | 271 | 233 | 258 | 393 | 184 |
| Re-exports .. .. | 61 | 46 | 26 | 13 | 5 | 6 | 7 | 50 | 12 |
| Surplus of Retained Imports .. .. | 387 | 401 | 715 | 767 | 720 | 993 | 1,041 | 658 | 83 |

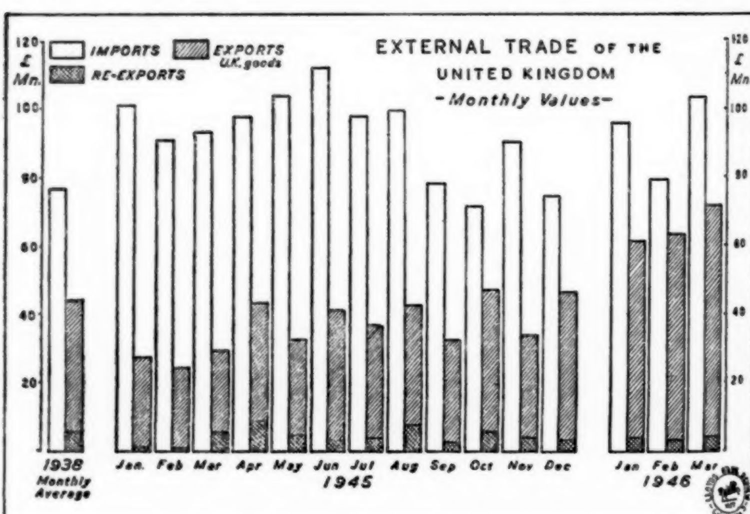
Source: Board of Trade.

## EXPORTS OF THE PRODUCTS AND MANUFACTURES OF THE UNITED KINGDOM.

Values in £ mn. Volume: 1938 = 100.

| Date | Food, Drink and Tobacco | | Manufactures | | Coal | | Other Items | | Total Exports | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Value | Volume | Value | Volume | Value | Volume | Value | Volume | Value | Volume |
| 1938 (Monthly Average) .. | 3·0 | 100 | 30·4 | 100 | 3·1 | 100 | 2·6 | 100 | 39·1 | 100 |
| 1946 | | | | | | | | | | |
| January .. | 5·3 | | 46·2 | | 0·9 | | 4·6 | | 57·0 | |
| February .. | 4·5 | 88 | 50·0 | 91 | 0·7 | 14 | 4·7 | 87 | 59·9 | 84 |
| March .. | 5·4 | | 56·0 | | 0·9 | | 4·7 | | 67·0 | |
| April .. | 4·9 | 85* | 59·0 | 106* | 0·9 | 15* | 4·6 | 85* | 69·4 | 95* |

Source: Board of Trade. * Based on prices of preceding period.



## WHOLESALE PRICES

| | United Kingdom * (Average 1938 = 100) | | | | U.S.A.† (Aug. 1939 = 100) |
|---|---|---|---|---|---|
| | Food and Tobacco. | Industrial Materials and Manufactures | Building Materials. | All Items. | All Items. |
| 1939 .. .. | 100 | 101·9 | 100·7 | 101·4 | 100 |
| 1940 .. .. | 136·4 | 133·7 | 117 | 134·6 | 103 |
| 1941 .. .. | 150·2 | 150·4 | 133·9 | 150·5 | 113 |
| 1942 .. .. | 161·1 | 154·6 | 139·2 | 157·1 | 129 |
| 1943 .. .. | 164·4 | 158·3 | 143·8 | 160·4 | 134 |
| 1944 .. .. | 162·4 | 164·4 | 147·3 | 163·7 | 135 |
| 1945 .. .. | 162·5 | 168·5 | 150·3 | 166·5 | 138 |
| April, 1946 .. | 163 | 173·5 | 157·5 | 170 | 147 |

Sources: * Board of Trade; † U.S. Bureau of Labor Statistics.

## WAGE RATES AND RETAIL PRICES

| Year | United Kingdom | | | | | | | U.S.A. † |
|---|---|---|---|---|---|---|---|---|
| | * Weekly Wage Rates. (Sept. 1939 = 100.) | Working Class Cost of Living * (September, 1939 = 100). | | | | | All ‡ Consumption Goods. | Cost of Living. (Average 1935–9 = 100.) |
| | | Food. | Clothing | Fuel and Light. | Rent. | All Items | | |
| 1939 .. | 100 | 102 | 103 | 101 | 100 | 102 | 103 | 99 |
| 1940 .. | 111 | 119 | 137 | 115 | 101 | 119 | 120 | 100 |
| 1941 .. | 121 | 122 | 177 | 125 | 101 | 128 | 137 | 105 |
| 1942 .. | 130 | 117 | 192 | 129 | 101 | 129 | 147 | 117 |
| 1943 .. | 135 | 120 | 169 | 134 | 101 | 128 | 155 | 124 |
| 1944 .. | 142 | 122 | 166 | 141 | 101 | 130 | 155 | 126 |
| 1945 .. | 149 | 123 | 167 | 150 | 102 | 131 | 158 | 128 |
| Apl.1946 | 158 | 122 | 166 | 151 | 102 | 131 | | 131 |

Sources: * Ministry of Labour; † U.S. Bureau of Labor Statistics; ‡ Index derived from Budget White Paper Statistics.

# BANK OF ENGLAND
(Banking Dept.).

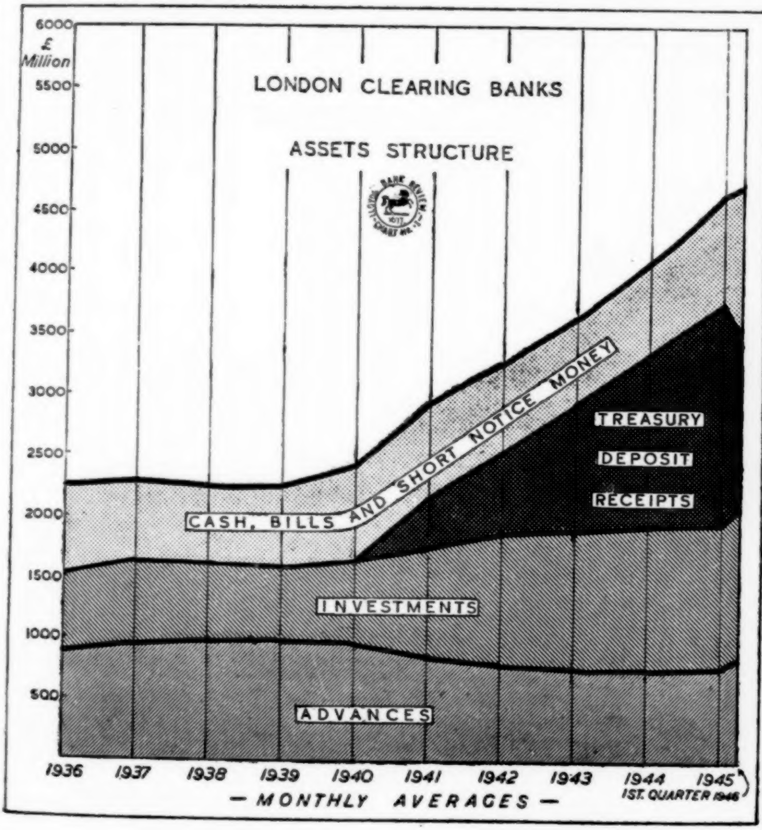
Weekly Averages

| Year. | Deposits. | | | Total Deposits | Securities | | | Reserve | |
|---|---|---|---|---|---|---|---|---|---|
| | Public | Banks. | Other Accounts | | Government | Discounts and Advances. | Other | Of Notes and Coin. | Proportion. |
| | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | % |
| 1935 | 15 | 97 | 38 | 150 | 87 | 10 | 12 | 59 | *39·7* |
| 1936 | 17 | 96 | 38 | 151 | 89 | 10 | 17 | 54 | *35·5* |
| 1937 | 19 | 97 | 38 | 154 | 98 | 7 | 21 | 46 | *29·5* |
| 1938 | 18 | 106 | 37 | 161 | 103 | 10 | 21 | 44 | *27·9* |
| 1939 | 21 | 103 | 38 | 162 | 107 | 8 | 23 | 41 | *25·6* |
| 1940 | 27 | 110 | 48 | 185 | 141 | 4 | 23 | 34 | *18·6* |
| 1941 | 17 | 123 | 52 | 192 | 144 | 10 | 21 | 34 | *18·2* |
| 1942 | 11 | 137 | 50 | 198 | 150 | 5 | 22 | 37 | *18·9* |
| 1943 | 9 | 159 | 55 | 223 | 180 | 4 | 19 | 38 | *17·0* |
| 1944 | 10 | 184 | 57 | 251 | 214 | 6 | 16 | 32 | *12·8* |
| 1945 | 13 | 218 | 55 | 286 | 252 | 9 | 15 | 28 | *9·7* |
| Jan. 1946 | 16 | 259 | 58 | 333 | 274 | 9 | 17 | 51 | *15·7* |
| Feb. 1946 | 14 | 225 | 54 | 293 | 213 | 6 | 18 | 74 | *25·3* |
| Mar. 1946 | 14 | 232 | 54 | 300 | 209 | 17 | 17 | 75 | *25·0* |
| Apl. 1946 | 13 | 226 | 53 | 292 | 203 | 33 | 15 | 59 | *20·2* |
| May 1946 | 13 | 235 | 54 | 302 | 219 | 20 | 21 | 59 | *19·7* |

# LONDON CLEARING BANKS.

| Period (Monthly Averages) | Deposits | | | Coins, Notes and Balances at Bank of England | Balances with other Banks and Items in course of Collection | Money at Call and Short Notice | Bills Discounted | Treasury Deposit Receipts | Investments | Advances |
|---|---|---|---|---|---|---|---|---|---|---|
| | Current | Deposit | Total | | | | | | | |
| | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. | £ mn. |
| 1936 .. | †1,197 | † 982 | 2,216 | 228 | — | 165 | 320 | — | 643 | 865 |
| 1937 .. | †1,233 | †1,011 | 2,287 | 235 | 62 | 167 | 281 | — | 652 | 954 |
| 1938 .. | 1,244 | 1,033 | 2,277 | 241 | 60 | 151 | 280 | — | 637 | 976 |
| 1939 .. | 1,252 | 996 | 2,248 | 244 | 67 | 149 | 255 | — | 608 | 991 |
| 1940 .. | 1,487 | 1,018 | 2,506 | 268 | 87 | 148 | 369 | — | 666 | 955 |
| 1941 .. | 1,885 | 1,085 | 2,970 | 311 | 107 | 134 | 231 | 495 | 894 | 858 |
| 1942 .. | 2,148 | 1,128 | 3,275 | 345 | 116 | 133 | 234 | 642 | 1,069 | 797 |
| 1943 .. | 2,455 | 1,222 | 3,677 | 387 | 123 | 152 | 185 | 1,002 | 1,147 | 747 |
| 1944 .. | 2,765 | 1,388 | 4,153 | 437 | 131 | 180 | 171 | 1,387 | 1,165 | 750 |
| 1945 .. | 3,127 | 1,566 | 4,692 | 492 | 141 | 206 | 188 | 1,811 | 1,157 | 768 |
| Jan. 1946.. | 3,135 | 1,594 | 4,729 | 496 | 143 | 248 | 361 | 1,493 | 1,230 | 829 |
| Feb. „ .. | 3,078 | 1,606 | 4,684 | 483 | 143 | 243 | 340 | 1,468 | 1,241 | 837 |
| Mar. „ .. | 3,143 | 1,606 | 4,749 | 493 | 154 | 253 | 379 | 1,443 | 1,246 | 853 |
| Apl. „ .. | 3,242 | 1,623 | 4,865 | 509 | 162 | 271 | 433 | 1,449 | 1,282 | 834 |
| May „ .. | 3,239 | 1,655 | 4,894 | 509 | 153 | 301 | 470 | 1,374 | 1,322 | 848 |

† England and Wales only.

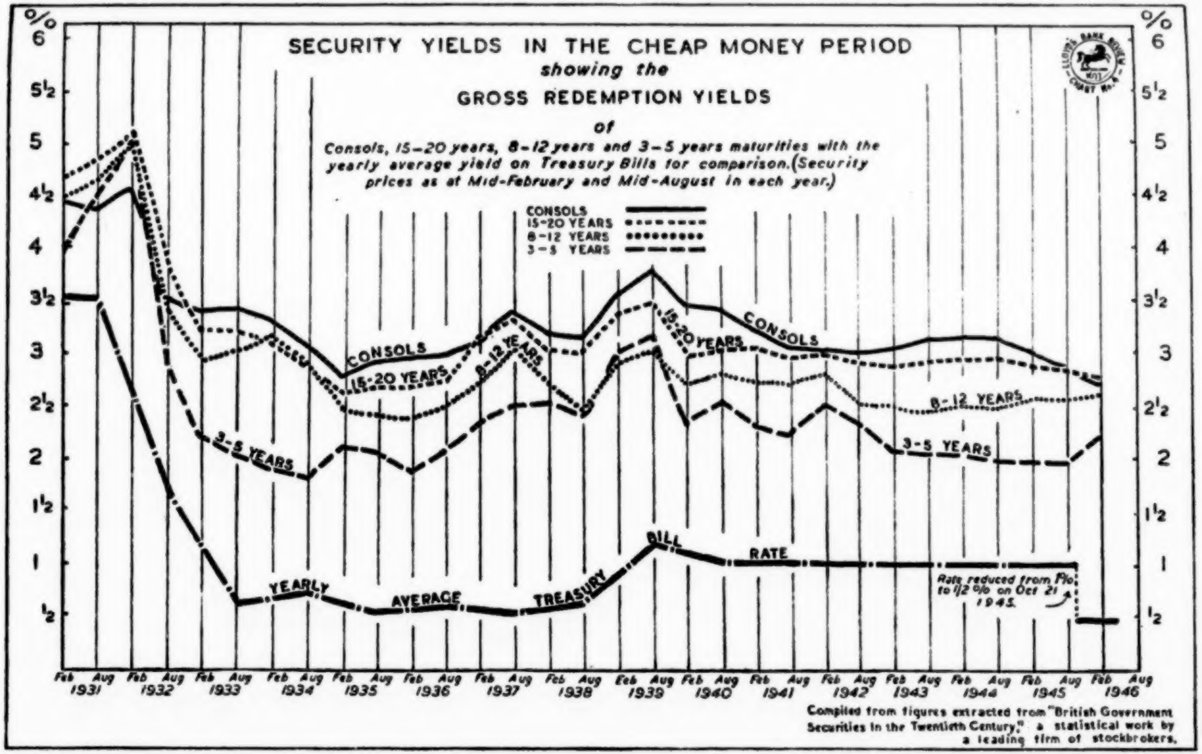


# DISTRIBUTION OF THE WORKING POPULATION OF GREAT BRITAIN

| | Mid-1939 | Mid-1943 | Mid-1945 | 31st Dec., 1945 | 31st March, 1946 | 30th April, 1946 |
|---|---|---|---|---|---|---|
| Total working population (1) .. | 19,750 | 22,281 | 21,569 | 20,969 | 20,521 | 20,427 |
| Unemployed (2) .. .. | 1,270 | 80 | 143 | 1,035 | 1,247 | 1,211 |
| | 18,480 | 22,201 | 21,426 | 19,934 | 19,274 | 19,216 |
| H.M. Forces, etc. (3) .. .. | 557 | 5,077 | 5,219 | 3,960 | 2,861 | 2,594 |
| Employed on supplying the Forces .. .. .. | 1,270 | 5,180 | 3,887 | 1,790 | 1,088 | 957 |
| Home civilian employment .. | 16,653 | 11,944 | 12,320 | 14,184 | 15,325 | 15,665 |
| Manufactures— | | | | | | |
| Metals and chemicals .. | 2,036 | 923 | 1,214 | 2,334 | 2,846 | 2,960 |
| Other manufactures .. | 3,634 | 1,746 | 1,827 | 2,253 | 2,563 | 2,655 |
| Total manufactures (4) .. | 5,670 | 2,669 | 3,041 | 4,587 | 5,409 | 5,615 |
| Basic industries and services .. | 4,681 | 5,027 | 5,111 | 5,112 | 5,195 | 5,237 |
| Building and civil engineering .. | 1,310 | 726 | 722 | 895 | 1,015 | 1,084 |
| Distributive trades .. .. | 2,887 | 2,009 | 1,958 | 2,050 | 2,110 | 2,132 |
| Other services .. .. .. | 2,105 | 1,513 | 1,488 | 1,540 | 1,596 | 1,597 |
| Home civilian employment .. | 16,653 | 11,944 | 12,320 | 14,184 | 15,325 | 15,665 |

Source: Ministry of Labour Gazette.

(1) Excluding private domestic service.
(2) Including former members of H.M. Forces who have not yet taken up employment.
(3) Including auxiliary services, Civil Defence, National Fire Service and Police.
(4) Of the numbers shown, 990,000 were employed on exports in mid-1939, 417,000 in mid-1945, 1,181,000 on March 31st, 1946, and 1,236,000 on April 30th, 1946.


SECURITY YIELDS IN THE CHEAP MONEY PERIOD
showing the
GROSS REDEMPTION YIELDS
of
Consols, 15–20 years, 8–12 years and 3–5 years maturities with the yearly average yield on Treasury Bills for comparison. (Security prices as at Mid-February and Mid-August in each year.)
CONSOLS
15-20 YEARS
8-12 YEARS
3-5 YEARS
CONSOLS
15-20 YEARS
8-12 YEARS
3-5 YEARS
YEARLY
AVERAGE
TREASURY
BILL
RATE
Rate reduced from 1% to 1/2 % on Oct 21 1945.
%
6
5½
5
4½
4
3½
3
2½
2
1½
1
½
Feb Aug 1931
Feb Aug 1932
Feb Aug 1933
Feb Aug 1934
Feb Aug 1935
Feb Aug 1936
Feb Aug 1937
Feb Aug 1938
Feb Aug 1939
Feb Aug 1940
Feb Aug 1941
Feb Aug 1942
Feb Aug 1943
Feb Aug 1944
Feb Aug 1945
Feb Aug 1946
Compiled from figures extracted from "British Government Securities in the Twentieth Century," a statistical work by a leading firm of stockbrokers.

# INDIA

## Wholesale Prices and Cost of Living.

| End of March | Wholesale Prices (1939 = 100) | Cost of Living (1933–4 = 100) |
|---|---|---|
| 1939* | 100.3 | 102 |
| 1940 | 127.5 | 106 |
| 1941 | 118.8 | 115 |
| 1942 | 145.6 | 132 |
| 1943 | 213.5 | 201 |
| 1944 | 232.1 | 218 |
| 1945 | 247.8 | 225 |
| 1946 | 253.2 | 247 |

* End of August

## INDIA—PUBLIC DEBT.

| End of March | Rupee Debt | Sterling Debt | Total Debt Expressed in Pounds Sterling (Lakh = £7,500) |
|---|---|---|---|
| | Lakhs | Thousands £ | Millions £ |
| 1939 .. .. | 7,09,96 | 351,844 | 884 |
| 1940 .. .. | 7,27,79 | 332,414 | 878 |
| 1941 .. .. | 8,61,17 | 258,698 | 905 |
| 1942 .. .. | 9,41,00 | 158,026 | 864 |
| 1943* .. .. | 12,06,18 | 41,694 | 946 |
| 1944* .. .. | 13,42,69 | 29,363 | 1,036 |
| 1945*† .. | 15,71,85 | 28,350 | 1,207 |
| 1946*† .. .. | 19,26,90 | 28,096 | 1,473 |

* Excluding Railway Annuities. † Preliminary figures.

## Merchandise

# INDIA OVERSEAS TRADE

In Lakhs of Rupees. Rupees 100,000 = 1 Lakh = (approx.) £7,500.

| | 1938 | | | | | 1944 | | | | | 1945 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Imports | | Exports (excluding re-exports) | | Balance (excluding re-exports) | Imports | | Exports (excluding re-exports) | | Balance (excluding re-exports) | Imports | | Exports (excluding re-exports) | | Balance (excluding re-exports) |
| | *% of Total* | Lakhs of Rupees | *% of Total* | Lakhs of Rupees | | *% of Total* | Lakhs of Rupees | *% of Total* | Lakhs of Rupees | | *% of Total* | Lakhs of Rupees | *% of Total* | Lakhs of Rupees | |
| **British Empire—** | | | | | | | | | | | | | | | |
| United Kingdom | *31.4* | 48,12 | *34·1* | 55,14 | | *21·5* | 38,61 | *29·9* | 65,49 | | *21·2* | 50,44 | *29·3* | 63,81 | |
| Burma .. .. | *14.8* | 22,73 | *6·2* | 10,13 | | — | 12 | — | — | | *0·1* | 2 | — | 1 | |
| Ceylon .. .. | *0.7* | 1,09 | *3·1* | 5,06 | | *1·9* | 3,50 | *8·3* | 18,23 | | *1·3* | 3,12 | *7·8* | 17,04 | |
| Australia .. | *1.3* | 2,04 | *1·8* | 2,95 | | *4·5* | 8,09 | *6·2* | 13,67 | | *3·7* | 8,82 | *5·7* | 12,34 | |
| Canada .. | *0.4* | 70 | *1·3* | 2,04 | | *1·7* | 3,02 | *2·6* | 5,59 | | *2·2* | 5,19 | *3·6* | 7,84 | |
| South Africa .. | *0.2* | 27 | *0·9* | 1,41 | | *1·5* | 2,66 | *5·6* | 12,69 | | *1·2* | 2,78 | *3·4* | 7,39 | |
| Others .. .. | *8.5* | 12,91 | *5·3* | 8,48 | | *9·9* | 17,70 | *11·8* | 25,58 | | *8·3* | 20,01 | *9·9* | 21,74 | |
| Total British Empire. | *57.3* | 87,86 = £66 Mn. | *52·7* | 85,21 = £64 Mn. | −2,65 = −£2 Mn. | *41·0* | 73,70 = £55 Mn. | *64·4* | 1,41,25 = £106 Mn. | +67,55 = +£51 Mn. | *38·0* | 90,38 = £68 Mn. | *59·7* | 1,30,17 = £98 Mn. | + 39,79 = +£30 Mn. |
| **Foreign Countries—** | | | | | | | | | | | | | | | |
| U.S.A... .. | *7.4* | 11,41 | *8·3* | 13,43 | | *21·8* | 39,16 | *22·0* | 48,16 | | *30·0* | 71,20 | *23·2* | 50,63 | |
| Japan .. .. | *10.2* | 15,58 | *9·0* | 14,53 | | — | — | — | — | | — | — | — | — | |
| Egypt .. .. | *1.7* | 2,60 | *0·8* | 1,31 | | *7·5* | 13,59 | *2·0* | 4,36 | | *7·5* | 17,80 | *1·4* | 3,00 | |
| Iran .. .. | *2.2* | 3,41 | *0·4* | 66 | | *26·6* | 47,57 | *1·4* | 3,10 | | *21·6* | 51,31 | *0·6* | 1,30 | |
| Others .. .. | *21.2* | 32,55 | *28·8* | 46,54 | | *3·1* | 5,83 | *10·2* | 22,38 | | *2·9* | 6,89 | *15·1* | 32,98 | |
| Total Foreign Countries. | *42.7* | 65,55 = £49 | *47·3* | 76,47 = £57 | + 10,92 = +£8 | *59·0* | 1,06,15 = £79 | *35·6* | 78,00 = £58 | −28,15 = −£21 | *62·0* | 1,47,20 = £110 | *40·3* | 87,91 = £66 | −59,29 = −£44 |
| **Total Trade** .. | | 1,53,41 = £115 Mn. | | 1,61,68 = £121 Mn. | +8,27 = +£6 Mn. | | 1,79,85 = £134 Mn. | | 2,19,25 = £164 Mn. | +39,40 = +£30 Mn. | | 2,37,58 = £178 Mn. | | 2,18,08 = £164 Mn. | −19,50 = −£14 Mn. |

# UNITED STATES OF AMERICA.

## Money and Credit

| End of Year | Money in Circulation $ mn. | Gold Stock (@ $35 per oz.) $ mn. | Total Reserve Bank Credit Outstanding $ mn. | Demand Deposits Adjusted * $ mn. | Excess Reserves of the Member Banks $ mn. |
|---|---|---|---|---|---|
| 1939 | 7,598 | 17,644 | 2,593 | 29,793 | 5,209 |
| 1940 | 8,732 | 21,995 | 2,274 | 34,945 | 6,615 |
| 1941 | 11,160 | 22,737 | 2,361 | 38,992 | 3,085 |
| 1942 | 15,410 | 22,726 | 6,679 | 48,922 | 1,988 |
| 1943 | 20,449 | 21,938 | 12,886 | 60,803 | 1,236 |
| 1944 | 25,307 | 20,619 | 19,745 | 66,930 | 1,284 |
| 1945 | 28,515 | 20,065 | 25,091 | 75,900 | 1,498 |

Source: Federal Reserve Bulletin.

* Less inter-bank and U.S. Government deposits, and less items in course of collection.

## THE BALANCE OF INTERNATIONAL PAYMENTS OF THE U.S.A.

| | 1939 $ mn. | 1940 $ mn. | 1941 $ mn. | 1942 $ mn. | 1943 $ mn. | 1944 $ mn. | 1945 * $ mn. |
|---|---|---|---|---|---|---|---|
| RECEIPTS FROM FOREIGN COUNTRIES— | | | | | | | |
| Merchandise Exports .. .. .. | 3,177 | 3,975 | 4,675 | 3,129 | 2,753 | 3,248 | 4,689 |
| Income on U.S. Investments Abroad.. | 541 | 612 | 568 | 515 | 454 | 454 | 516 |
| Other Current Transactions .. .. | 596 | 590 | 696 | 721 | 626 | 618 | 1,573 |
| Total Current Transactions .. | 4,314 | 5,177 | 5,939 | 4,365 | 3,833 | 4,320 | 6,778 |
| Capital Transactions (net)— | | | | | | | |
| Long Term .. .. .. .. | 27 | — | — | — | 70 | 138 | — |
| Short Term .. .. .. .. | 1,470 | 833 | — | — | 165 | 258 | — |
| Total Receipts .. .. .. | 5,811 | 6,010 | 5,939 | 4,365 | 4,068 | 4,716 | 6,778 |
| PAYMENTS TO FOREIGN COUNTRIES— | | | | | | | |
| Merchandise Imports .. .. .. | 2,318 | 2,692 | 3,410 | 3,156 | 3,562 | 4,159 | 4,299 |
| Income on Foreign Investments .. | 230 | 200 | 190 | 164 | 157 | 157 | 180 |
| Other Current Transactions .. .. | 1,034 | 859 | 1,065 | 1,494 | 1,889 | 1,733 | 2,376 |
| Total Current Transactions .. | 3,582 | 3,751 | 4,665 | 4,814 | 5,608 | 6,049 | 6,855 |
| Capital Transactions (net)— | | | | | | | |
| Long Term .. .. .. .. | — | 51 | 657 | 8 | — | — | 1,778 |
| Short Term .. .. .. .. | — | — | 297 | 117 | — | — | — |
| Total Payments .. .. .. | 3,582 | 3,802 | 5,619 | 4,939 | 5,608 | 6,049 | 8,663 |
| Excess of Receipts (+) or Payments (−) | +2,229 | +2,208 | +320 | −574 | −1,540 | −1,333 | −1,855 |
| SETTLEMENT OF BALANCE— | | | | | | | |
| Gold Reserves .. .. .. .. } | −3,018 | −4,095 | −572 | +115 | +735 | +1,305 | +506 |
| Official Dollar Balances .. .. } | | +683 | −101 | +377 | +1,052 | +186 | +1,484† |
| Net Inflow (+) or outflow (−) .. | −3,018 | −3,412 | −673 | +492 | +1,787 | +1,491 | +1,990 |
| Unexplained Items .. .. .. | +789 | +1,204 | +353 | +82 | −247 | −158 | −135 |

*Note.*—Figures are estimates derived from "The Statistical Abstract of the United States." Lease-Lend and Reciprocal Aid transactions are excluded, except Lend-Lease exports for which cash re-imbursement was received.

* Figures derived from "Foreign Commerce Weekly," of 19.i.1946.

† Includes also net movement of short-term capital.